SMALL BUSINESS MANUAL

Department of Trade and Commerce, Ottawa

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Chapter I

THE PERSONAL ASPECT

The small business occupies a large and important place in the everyday life of Canada. Nearly every day we deal with grocery stores, butcher shops, men's or women's clothing stores, shoe stores, drug stores, barber shops, laundries, garages, or amusement centres, many of which are owned by small businessmen. Not so apparent in every day life are the numbers of manufacturers who operate on a small scale in a variety of fields. Flour and feed mills, sawmills, sash and door factories, and metal-working shops are a few examples of small manufacturing businesses. There are many others, not only the older more established industries but also many recent beginners.

The small business occupies this important position because it can be adapted to meet the needs of any particular community. For example, many towns and villages are too small to support a large retail firm. Even in large urban centres, there are many lines of activity in which small businesses can make a place for themselves. Here they play an important role in the local economy by emphasizing some special feature—location, personal attention, particular goods, or unusual service. These firms are established by individuals or groups who, after weighing the advantages and disadvantages of ownership, have decided to become proprietors, and have had the capital plus the energy and ability needed for success.

There are many satisfactions to be derived from owning or partly owning a small business. If a man is the sole proprietor of a firm, he has, of course, the satisfaction of ownership itself. The owner of a successful business is usually respected in his community. Then again, as his own employer and boss, the sole proprietor plans the business, makes all the decisions, takes all the profits, and bears all the losses. There is a direct connection between his ability and energy on the one hand and his material rewards on the other. The sole proprietor does not

have to wait for someone to approve his plans, give him a more responsible position, or raise his salary. The owner is responsible for his own advancement and profits. If successful, he can look forward to a comfortable income and a secure place in the community, and can pass on his business to his heirs.

We have been talking about the sole proprietorship, or individually-owned business. What we have said in the last paragraph has to be modified somewhat in the case of partnership or incorporated entity. In these cases, the individual loses some of his independence through having to co-operate with co-owners. His success is no longer completely dependent upon his own efforts. But most of the other satisfactions are still there, even if modified somewhat.

So far, we have presented one side of the picture—the pleasant side. Now we must look at the responsibilities which the small businessman, especially the sole proprietor must face. These are of three types.

Firstly, the owner has a responsibility to his customers. He must sell them the types of goods or services they want, at prices which meet those of his competitors, and in a way which they find pleasant and convenient. The businessman makes money by serving his customers. He must get to know their wants, tastes and personalities. His store must appeal to them individually, in such a way as to hold old patrons and attract new ones.

Secondly, the owner has a responsibility to his employees. He must meet the payrolls every week, every two weeks, or every month, as the case may be. He must establish and maintain an efficient working organization. He must provide adequate safeguards for health and safety, and working conditions that are as pleasant as possible. Failure to do this results in poor co-ordination, divided responsibility, bickering, and inefficiency, all of which offend customers and lose sales.

Thirdly, the owner has a responsibility to government—federal, provincial and local. To the Federal Government he is responsible for the payment of his personal income tax. He is also responsible to the Federal Government for the collection of income tax deductions and unemployment insurance deductions from his employees' wages. He may also be responsible

for collecting and remitting federal sales and excise taxes. To his provincial government he may be responsible for the payment of certain taxes or charges, such as workmen's compensation contributions. He must comply with provincial building codes, fire regulations, and health and safety codes. To local government, he is answerable for the observance of any local building codes, as well as the payment of property taxes and fees for any licences he may require.

The responsibilities of the businessman are many and heavy. The successful bearing of this burden of responsibility, and hard work, mean that the businessman must have personal qualifications of a high order.

Firstly, he must be a leader. He must have initiative, energy, and foresight. He must thrive on the burden of work and responsibility which he constantly carries. He must have an interest in people, their tastes, preferences, and reactions, and must learn to adapt himself to them. Chiefly, he needs a bright, aggressive, and hopeful outlook on life. He must be able to take the bad breaks with the good and learn to profit by errors he makes.

Secondly, he must be a man of sound character. The owner must meet the demands of his creditors promptly. He must deal honestly with customers, and fairly but firmly with his employees. If his business is to grow, he must become known as a man of his word. Although he will miss no opportunity to take advantage of bargains and special offerings, he will never take unfair advantage of a customer. Honesty and reliability are as much part of his stock-in-trade as his inventory.

Finally, and most important of all, he should be a man of experience. If not, he must know where to obtain expert advice. Before he starts out he must know his business thoroughly. He must know the qualities and prices of merchandise which will sell, the dealers from whom he can buy it, and the terms on which they will sell to him; the nature of his equipment; the skills of his employees; the available sources of loans and the rates of interest on those loans; the regulations of government; the details of stocking, display, and selling; the costs which he must incur, and the minimum sales necessary to cover those costs; and the accounting procedures essential to his work. He

must realize the competition to be met. He must, at the same time, be able to take an over-all view of his business instead of becoming involved in too many details. He will know when to take risks and when to avoid them, when to expand his business and when to contract, and when to borrow to take advantage of discounts. The necessary knowledge, ability, and judgment is rarely acquired without previous experience in a similar line of endeavour.

Therefore, before starting up a business of your own, you should work for some successful firm in the line of business you intend to enter.

If, for instance, you are planning on establishing a retail store, go to work for a retailer, or for a variety or department store. Your work alone may not be sufficient training. You may require night school courses in certain aspects of business. For example, if you are selling for a department store, you should take a night school course in bookkeeping. Department stores often have courses for their employees in various aspects of store operation. If you are working in a department store, you should try to move around to acquire experience in several departments. Working for a small firm is sometimes even better as you do a variety of work and become better acquainted with the business as a whole. On the other hand, the training obtained in larger firms is usually more thorough in so far as special aspects of the work are concerned.

Similarly, if you intend to set up a small metal-working shop, a bakery, restaurant, cement block plant, or locker plant, you should first become quite familiar not only with the technical operations but also with the business practice. Technical training such as the operation of machine tools is given in the vocational training schools of the various provinces. You should, however, learn the best methods through actual experience in an established firm.

If you are going into partnership with one or more other men, it may be possible to specialize to some extent. For example, if three men are partners in a retail store, one might keep the accounts and records, a second might supervise sales and displays, and the third handle purchasing and stocking. Thus, if you look forward to handling accounting, you should

try to get into the accounting department of some established store and learn its practices. If you plan on handling sales and displays, an excellent training is provided by becoming a sales clerk in a department store and taking any merchandising courses which the store offers its employees. But a general knowledge of the business is still highly desirable in case one of your partners becomes ill.

Going into business for yourself is something which not only confers rewards and provides opportunities, but is also an undertaking which requires experience and capital. It may involve considerable financial risk. It is not a decision to be taken lightly. Carefully appraise your own ability, personality, and experience. Consult Chambers of Commerce, Boards of Trade, Better Business Bureaux, bankers, trade suppliers, and wholesalers, about the opportunities and requirements for entering the business you have in mind. Proceed on the basis of careful calculation and sound advice, not on hunches or guesses. Weigh the evidence carefully before arriving at a decision. Then stick to it.

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Chapter II

FORMS OF ORGANIZATION

In this chapter, we shall consider the various ways in which your business can be organized. You may have decided on this already. But at any rate, it is well to be aware of the different types of organization which are available and the characteristics of each. You may intend to be the sole owner of the business yourself, or you may have decided to go into a partnership with one or two friends. But are you aware, for example, of the many advantages your firm could derive from being organized as a private corporation? This would be appropriate if you know several men who have some capital to invest, but who do not want to be liable for the debts of the firm, or who do not want to take any active part in its management. If you know of a fairly large number of people who might be interested, each of whom has only a relatively small amount of money to invest, the co-operative is an appropriate form of organization.

We shall proceed to examine these various types together with the characteristic advantages and disadvantages of each.

The Individual Enterprise

The individual enterprise is one which is owned by one person. It may be operated by him alone, or with the aid of his immediate family, or with one or more paid employees. But the basic point is that there is only one person who is legally responsible for the firm's debts and entitled to the firm's profits. He owns all the assets, must meet all the liabilities, and is responsible for the conduct of every phase of the enterprise—buying, selling, manufacturing, advertising, accounting, personnel, and so on—even though he may hire other people to take charge of some of them.

If you establish an individual enterprise, you will enjoy certain advantages. Your profits and the growth of your business will depend upon your own ability and hard work. You will be "your own boss" but it does not mean you can do exactly as you please, for you must still satisfy your customers and abide by government regulation. Your business will be easy to organize and you can add to it as you see fit. The enterprise is free from many of the regulations with which the corporation must comply. You will have to pay personal income tax, but you will be free from corporate profits tax.

At the same time, the individual enterprise has certain natural disadvantages. The most important of these is the unlimited liability of the owner. That is to say, if your business becomes insolvent and is forced into bankruptcy, the law will make no distinction between your business assets and your personal belongings. Not only will your business assets be seized and sold, but also your personal property, both what you possess at the time of bankruptcy and all you may acquire up until the time at which the bankruptcy is discharged. Your liability, in other words, is not limited to your business assets.

The liability of married men is limited to their own personal property. Creditors cannot touch any property that is listed in a wife's name. For married women in business, however, a word of caution. While only their separate property is liable under the contracts they make, their position in such respect is quite special in the Provinces of Nova Scotia and Quebec. In both provinces special legal procedures are required to establish the exact nature of the property belonging to a wife. Unless such distinction is made, the property of both husband and wife can be taken to satisfy creditors of the wife's business enterprise. In fact, any married person entering into business in the Province of Quebec, whether man or woman, must go through legal procedures designed to establish to what extent his or her property is separate from that of his or her spouse. If you are in either of these situations, you should seek legal advice.

The individual enterprise has other disadvantages. Its size is limited by the amount of the owner's capital plus whatever he can borrow from friends, relatives, and lending institutions. This usually means that the business will be small. But it will

have to meet the competition of older established firms which may have greater resources, especially if they are partnerships or corporations. There are many ways in which this small size can hamper you. For example, when ordering goods, you will not be in the same position to get quantity discounts as will the larger buyer. The fact that you must supervise all branches of the business means that you cannot be a specialist in any one branch. You are, therefore, at a disadvantage unless you hire a number of experienced people, and, you are not likely to be able to do this at first. You will have to compete with firms whose employees have specialized in merchandising, advertising, accounting, and so on, and who have acquired a greater skill in handling these matters.

Finally, there is a lack of continuity in the individual enterprise. After your death, the administrators of your estate can carry on the business under letters of administration, until the affairs of the estate are settled and title is transferred to your heirs. How well the estate will be administered in the meanwhile will depend upon the administrators. If they are very busy, or incompetent, the business may suffer.

If, as the proprietor of an individual enterprise, you wish to use a name other than your own, or to add "and company" or similar words to your name, you must file a declaration in accordance with the laws of the province in which you will conduct your business. The place of filing is usually the local county court house.

Partnership

In a partnership, at least two people pool their resources and abilities in the conduct of a particular business enterprise. A partnership is created by entering into a contract which has two main points: (1) it states the contribution to be made to the business by each partner; and (2) it specifies the manner in which the earnings of the enterprise are to be shared by the partners. Such other matters as the following are also usually covered: purpose of business, name of firm, duration of agreement, place of business, rights of management, procedure for termination or re-organization of the partnership.

A partnership agreement should be carefully drawn up in specific detail. If all matters are clearly set down in writing, possible misunderstandings and disagreements may be avoided.

The most common forms of partnership are: general partnership and limited partnership. Each has the same powers but differs in formation, registration (in some instances), and the individual liability of the members to one another and to the public.

In a general partnership the members are not only jointly liable (liable in equal shares) for the debts of the partnership, but in addition, are jointly and severally liable (each liable for his share or the full amount). Each partner can bind the partnership irrespective of the consent of the other partner.

A limited partnership is composed of one or more general partners who conduct the business, and one or more persons who contribute an amount in actual cash called special or limited partners. As opposed to the unqualified liability of a general partner, a limited partner is liable to the firm or to its creditors only to the extent of the capital he has agreed to contribute, and no more. He may share in the profits according to the partnership agreement but must take no part in the management of the firm or he becomes a general partner.

A partnership arrangement has certain advantages. It permits the partners to specialize to some degree. In a small auto parts firm operated by three partners, for example, one partner does all the selling, a second does the repair work, while the third does the bookkeeping and the detail work of the stock room. Each is thoroughly experienced in his branch of the business, which, as a result, operates at a higher level of efficiency than if one man had to handle all three aspects of the business. The partnership thus makes it possible to combine a variety of talents in the conduct of the business. It is possible, too, that a larger amount of capital can be brought together by three partners than by one man alone. This larger capital plus a variety of talents may make it possible for the partnership to expand further than would be feasible with one man's capital and ability. Like the individual enterprise, the partnership is free from corporation taxes, although the partners pay income tax on their salaries and their shares of the net profits of the firm.

The partnership has certain disadvantages. The first of these is the feature of unlimited liability. The partnership is not an entity distinct from the persons that comprise it. Each 'general' partner is individually liable for the whole of the debts of the partnership. For example, if a two man partnership owes $5,000 to its creditors, and partner A is known to have considerable money, while B is known to be a relatively poor man, the creditors may sue A for the $5,000. As in the case of the individual enterprise, the law makes no distinction between the 'general' partner's share of the assets of the business and his personal property.

Again, there is the danger that some of the partners may be dishonest or incompetent and will cause the business to lose money through fraud, negligence, or bad judgment. There is also the fairly considerable disadvantage that the partnership ceases to exist if one of the partners dies or withdraws from the partnership.

All parnerships must be registered in accordance with the laws of the province in which business is to be carried on. The usual place of registration is the local county court house.

When a partnership is dissolved, it is prudent to provide public notice of the dissolution. Notice of dissolution is given by inserting a notice to that effect in the Provincial Gazette of the province in which the partnership has been acting. It protects retiring partners from debts incurred by the business after their withdrawal.

The Corporation

The corporation or joint stock company is the most complex of all the forms of business organizations. It is a separate legal entity distinct from the shareholders who own it. The corporation's capital is raised by the sale of shares of stock to persons who wish to become part owners of the company. These stockholders or shareholders as a group own the company. The shares are actually certificates of ownership in the corporation. Owning a share entitles the stockholder to a certain share of any profits which may be made available for distribution by

the management. In a public corporation, shares are transferable, that is, can be sold by stockholders who no longer wish to own them. In a private corporation, the number of shareholders is limited to fifty, the shares can be transferred only within the limitations laid down in the Letters Patent, and there can be no invitation to the general public to subscribe for the shares or debentures of the company. Ownership of a share, unless it belongs to a special class for which voting rights are limited, also entitles the shareholder to one vote at regular meetings when the policies and actions of the corporation come up for review by the shareholders.

The corporation is governed by a board of directors elected by the shareholders at the annual meetings. Sometimes a special meeting is called for this purpose. The board appoints members to fill any vacancies which may occur between annual meetings due to the resignation or death of elected members, and these appointees hold office until the next annual meeting. The board of directors meets from time to time and supervises the business of the corporation in a general way.

The management is the term used to describe the officials of a corporation who direct its operations from day to day. The president and vice-presidents must be members of the board of directors. The secretary-treasurer and the general manager may be members of the board of directors, but not necessarily so. They may also be paid employees of the corporation, and usually are. The management is responsible to the board of directors, which in turn is responsible to the shareholders, who are the ultimate owners of the corporation.

The corporate form of organization has many advantages. The most important of these is that the liability of shareholders is limited to the value of their shares. That is, if a shareholder has bought $100 worth of stock in a company and the company goes bankrupt, he will lose the amount he paid for the stock, but the company's creditors have no claim on his personal possessions. Sometimes corporations sell shares of a given "par value," but the person who buys the stock does not have to pay the whole of the par value at the time of purchase. The company retains the right to call on him for any or all of the unpaid portion of the value of his stock at any time. In case the corporation is forced into bankruptcy, the shareholder is

liable for any of the uncalled value of the shares he owns, but there his liability ends.

For example, suppose that you bought a $100 par value share in a company and were required to pay only $25 for it at the time of purchase. If the company goes into bankruptcy, the receiver can call on you for the remaining $75, but no more.

The limited liability of shareholders and the transferability of shares give corporate stocks a wide appeal among those who have resources available for investment but who do not want to risk their entire personal fortunes, and those who may want to withdraw from the enterprise at a future date. In this way, huge quantities of capital are accumulated for the carrying on of business by gathering together the individual savings of large numbers of shareholders. At the same time, control of day-to-day business is concentrated in the hands of permanent management. These features enable the corporation to expand its plant, extend the range of its products, plan large advertising campaigns, raising the required funds by new stock issues.

Profits are usually paid to the shareholders only in years in which profits are made. In a bad year, the corporation does not have to make any payments to its owners. This is more advantageous than having to pay interest on borrowed capital regardless of whether the year has been a profitable one or not. The corporation also possesses an assured continuity; it is not dissolved by the death of any of its shareholders or by the sale of shares by a shareholder.

Against these very considerable advantages must be set a number of disadvantages. It requires a considerable expenditure of time and money to organize a corporation. The advice of accountants and lawyers is essential and their fees must be taken into account. Again, the corporation is normally subject to a greater tax burden than other forms of enterprise (see section on taxation in Chapter X). Not only are there taxes on corporate income, but dividends paid out to each shareholder are subject in part to personal income tax. The sale of shares is regulated by law. The corporation is, in fact, more closely regulated than other forms of business organization.

If you wish to organize your business as a corporation, you must decide whether to organize as a private or as a public

company and whether to be incorporated by the Federal Government or by one of the provincial governments.

There is no very great difference between being incorporated by the Federal Government and being incorporated by one of the provincial governments. Federal incorporation gives one important advantage; provinces cannot enact regulations designed to affect the status of a company possessing federal letters patent. That is, these federal companies may not be impeded by discriminatory legislation passed by any province. Federal companies, however, are subject to provincial laws of general application.

If you decide to secure federal letters patent, you should write to the Secretary of State, Ottawa, Canada, and if you desire provincial letters patent, you should write to the Provincial Secretary or the Registrar of Companies of the appropriate province to obtain the proper application forms. You should fill these out and return them. After the application has been approved, and your company has been incorporated, you may proceed to organize your business.

Fees payable to the Secretary of State, Ottawa, upon filing of an application for Letters Patent, are based upon the authorized capital requested, and are on a sliding scale beginning at minimum of $100 for an authorized capital of $50,000 or less.

The Co-Operative

The final form of organization we shall consider here is the co-operative. In this type of organization, capital is raised by the sale of shares to members. But whereas in the corporation the number of votes a shareholder has is in proportion to the number of shares he owns, in the co-operative the principle is that of allowing one member one vote only, regardless of the number of shares he holds. Management is in the hands of a board of directors elected annually by the members. The co-operative can be and should be organized and registered as a corporation in the province in which it does business. If it is incorporated, its members receive the benefit of limited liability with all the protection which this implies. The over-whelming majority of co-operatives are organized as corporations for this reason.

The co-operative store buys its goods from ordinary wholesale houses or from the wholesale co-operatives which are owned by retail co-operatives. These goods are sold at the retail price prevailing in that particular area. At the end of year, after the expenses of operation and reserves have been deducted from net sales, any surplus which is left over is paid out to members in the form of patronage dividends. These dividends are proportional to the volume of business which the members have done with the co-operative. They are not related to their holding of shares in the co-operative.

Co-operatives are also organized in the packing and processing industries. Creameries are often owned co-operatively by farmers who have dairy herds, and the packing of fruit is often organized co-operatively by fruit growers. In these cases, patronage dividends are paid out to members in proportion to the quantities of cream or fruit they have delivered to the co-operative for processing or packing.

The advantages of being a member of a co-operative are quickly stated. In the case of the retail co-operatives, a member benefits from being able to buy his goods at prices below the independent retailers' prices,—if you take into account patronage dividends. In a producers' co-operative, the members receive any profits made on the processing or packing of their products. If the co-operative is incorporated, the members are protected by the limited liability feature. An incorporated co-operative has continuity of corporate existence. As regards income tax, the co-operative is in a middle of the road position. The co-operative is not taxed on patronage dividends paid out to members, but it is taxed on those profits retained within the co-operative.

The weakness of the co-operative lies in the danger of the management being inexperienced, or not having sufficient financial investment to put forth its utmost efforts. As co-operatives have their greatest popularity in small towns in rural areas, the management is likely to be drawn from the local membership, and may lack thorough training in business.

Several of the provincial governments have taken an active role in promoting the organization of co-operatives. If you plan on organizing one, you should get in touch with the appropriate government department or bureau.

Chapter III

LOCATION OF FACTORIES

In this chapter and the following one your attention will be drawn to planning the location of your business. Since the factors which affect the location of a factory are rather different from those which affect the location of a retail store, the discussion will be carried on in two parts. This chapter will deal with location of factories, and the following one with location of retail stores.

Choosing a location for your factory amounts to finding such a locality and site as will make the profits from your operations as large as possible. To do this you must locate so that your net sales in relation to your costs are as favourable as possible. You cannot afford to neglect any factor which will affect either your sales or your costs. Raw materials, labour, power, fuel, and transportation costs must all be considered. So must such important items as market area, amount and quality of competition, available distribution facilities, and local laws and taxes. You must take a long-run view of all these matters because your factory, once erected, will have to be operated under favourable conditions over a long period it it is to be a profitable investment.

1. Production Materials

An important matter is the availability of raw materials and semi-manufacted goods used in making your product. The closer you are to the source of production materials, generally speaking, the lower will be the cost of transporting them to your factory, the lower will be your cost of production, and the greater will be your ability to compete.

You should first of all find out what quantities of your particular raw materials are available in the district. You should also find out the quality of these supplies, for if they do

not come up to satisfactory standards, it may pay you either to ship in raw materials or to locate in a different area. Another important matter is the cost of obtaining raw materials. Raw materials of good quality may be obtainable in sufficient quantities over a long period, but only at prohibitive cost. If you will be using natural resources, such as timber or minerals, you can usually expect that the cost of obtaining them will rise after a time as the more easily obtained supplies are used up and you have to depend upon supplies which are farther away, deeper in the ground, or poorer in quality. If these raw materials are partly processed by other firms, you should find out their annual production, the fraction which would be available for your operations, the cost of this supply, and the probable future trends of supply and price. You should make a careful comparison of costs (including freight) from alternative sources of supply. Another thing to check is whether any firm or any small group of firms has substantial or complete control of raw material vital to you. If some firm is in such a position, it will be able to raise the price of the raw material substantially, cutting deeply into your profits. You should also learn whether there are any seasonal irregularities in the production or delivery of these raw materials.

Similarly you should investigate the supplies of any semi-manufactured goods which you may require for your product. Find out the annual production of the firms in the area, its quality, its costs, and the extent to which manufacturers will produce to your specifications. Compare the cost of this local supply with the cost of supplies in other areas, and the cost of bringing these supplies to your proposed location. Note any seasonal irregularity in production or delivery.

Information on the location, chemical and physical composition, and quantities of various natural resources can be obtained from the following sources in Ottawa:

Dept. of Northern Affairs and Natural Resources
Dept. of Fisheries
Dept. of Mines and Technical Surveys
Dominion Coal Board.

Information may also be obtained from the corresponding departments of the provincial governments.

Information on the location of manufacturers of semi-finished goods, supplies, and equipment can be obtained from the Canadian Trade Index, published by—Canadian Manufacturers' Association, 67 Yonge Street, Toronto; from Fraser's Canadian Trade Directory, published by—Fraser's Trade Directories Limited, 1520 Mountain St., Montreal; and, from publications of the Dominion Bureau of Statistics, Ottawa. Additional sources of information are: Industrial Development Branch, Department of Trade and Commerce, Ottawa, and the bureaux of Industrial Development of the various provincial governments as listed in Appendix A. Local information can be obtained from the Chamber of Commerce, Board of Trade, or Industrial Commissioner in the area.

2. Labour

Another prime consideration is the labour supply in the area. If your enterprise is going to employ a considerable number of people, you will want to locate in an area in which large numbers of people already live within easy reach of the factory. Otherwise, you will probably be forced to go to the expense of bringing in workers. You should find out the number of males and females over fourteen years of age in an area within which workers can go to and from the factory with ease each day. Determine the numbers of unskilled, skilled, and semi-skilled workers of the type required in your factory, and compare them with the numbers available in the area. Of primary importance are the prevailing wage-rates for the types of labour you need. You should find out if there is any seasonal migration of workers, or any seasonal division of workers' time between industry and agriculture. Since labour organization in Canada has almost tripled in the last ten years, you should be aware of its extent in your proposed locality or intended industry. Another matter to investigate is the labour turnover in the area.

You can obtain information of this sort from the local offices of the National Employment Service of the Unemployment Insurance Commission, or from the labour departments of the provincial governments.

3. Living Conditions

Closely related to the last topic is the factor of living conditions. The conditions under which employees live will have an effect, either good or bad, upon their performance in your factory. In the long run living conditions will affect your rate of labour turnover, since people will tend to move away from a bad area. Workers housed in clean comfortable homes in residential areas provided with parks and recreational facilities are more likely to be steady and highly productive than those who are forced to live in slums. Discontented workers are liabilities, both to themselves and to their employers.

Therefore it is advisable to look into this matter carefully. You should get specific information on the housing and shopping districts, on hospital, religious, educational, and recreational facilities, and on professional services available in the area in which you propose to locate. Information can be obtained through conversation with local civic officials. Personal inspection is recommended.

Climate will play a part in the overall picture of living conditions. You should find out the average temperature and precipitation for all seasons as well as the extremes of temperature in both winter and summer. You should seek data on the number of hours of sunshine per year, the average relative humidity and wind velocity for each month, for the past ten years.

Information on climate may be obtained by writing to local civic officials, or to:

The Controller,
Meteorological Division,
Department of Transport,
315 Bloor St. West,
Toronto 5, Ontario.

4. Sites

Important considerations when thinking of factory location are the amount and kind of land available for industrial purposes. If such land is scarce, you may be able to get enough to build a small factory, but not enough for additions in the future.

If land is scarce, its price or rent is likely to be high. If the land is to be rented, you will want to know the terms on which lease will be granted and the length of time for which it will run.

An important feature of many towns and cities from the industrialist's point of view is the existence of laws which divide the total area into residential and industrial zones, prohibiting factories in residential zones and residences in industrial zones. Because such laws may restrict the amount of land available for factories, it is advisable to obtain details from the proper civic authorities before proceeding to examine sites.

In addition to the actual amount of land available for industrial purposes, you will want to know a great deal about the location and characteristics of the land. You should know if it is hilly or flat, dry or swampy. If the land is hilly, you may have to spend money to have it cut and filled to provide a flat area of suitable size. If the subsoil is soft, it may be necessary to sink concrete piles to support the weight of the factory building. If the land is near a river in which the depth of water varies seasonally, the soil may contract and expand with its moisture content, and affect the foundations of your building. Freedom from floods is naturally desirable. All such matters should be carefully investigated.

The improvements in the area should be noted. You should find out whether fire protection, sewers, drinking water, gas and electricity are provided, and the system of rates which are in effect for industrial users. The location of the factory with regard to street transportation will be important in enabling employees to reach the plant. A location near railway spurs, or near main roads, or on good roads leading to highways, will make it much easier to bring in production materials and ship out finished products.

Finally, you should investigate the amount of available space in existing buildings in the area. In doing so, you should bear in mind all the factors mentioned above. You would be well advised to consult a competent industrial architect to determine suitability for your purpose. He should carefully inspect the buildings to determine the condition of foundations,

walls, floors, electric light wires, power cables, boilers, steam heating systems, fire protection devices, ventilation, and lighting. If the building needs considerable repair, the architect should prepare an estimate of cost, and you should take this into account when you consider the price or the annual rental of the building.

5. Fuel and Power

You should investigate the various types of fuel available in the area. It may be possible to use either gas, coke, coal, oil, wood, chips, sawdust, electricity, or steam on contract, as fuel in your plant. Your choice will depend partly on technical factors, partly on the cost of the fuel itself, and partly on the cost of the particular equipment you must use with each. Before deciding to use a particular fuel, you should know the degree of regularity and dependability of the supply. Learn the sources of supply, trends in current production, methods of transportation, and heating characteristics, of all the alternative types. The initial cost of buying and installing the equipment to be used with each fuel—for example, stokers and automatic grates with coal—should be calculated along with maintenance and repair costs, length of life, and reliability.

You may also be able to use any one of a number of kinds of power in your factory—gasoline, diesel, or steam engines, or electric motors. The cost of installing and maintaining these engines and any accessory equipment such as fuel storage tanks or transformers must be considered along with any special rates to industrial users of electricity, fuel oil, gasoline, or coal.

6. Water

Certain industries require large amounts of water in the manufacture of their products, and, in some, requirements with respect to impurities are critical. For example, soft water is an absolute necessity for the textile industry, and water free from contamination is needed by all of the food industries. If this is the case in your industry, it is important to find out just

what quantity of water is available, its chemical composition, its rate of flow, temperature, seasonal variation, and cost. For information write to:

Industrial Waters Sections,
Industrial Minerals Division,
Dept. of Mines and Technical Surveys,
Ottawa, Ontario.

7. Transportation Facilities

An important factor influencing many aspects of factory operation is the transportation facilities serving the place in which you build your factory. The rates on fuels, raw materials, and semi-manufactured goods shipped in, and on finished goods shipped out, will affect your costs and your ability to compete with other producers. The regularity, dependability, and frequency with which the various carriers operate will be of great importance to you. In certain lines of business speed of delivery is essential, and you should therefore look carefully into the adequacy of the carriers' terminal facilities and the promptness of their delivery services. Make certain of any seasonal changes in the adequacy and dependability of transportation services in the area. Estimate the carriers' ability to carry an expanding tonnage. You should investigate all types of carrier—rail, water, highway, pipeline, air—and compare not only their rates, but the speed, frequency and dependability of their shipping schedules and any accessory services, such as delivery or storage. You should check services and rates, not only on shipments from suppliers to your factory, but from suppliers to your competitors' factories; and not only from your factory to your chief potential sales areas, but also from your competitors' factories to these same sales areas.

Railway Freight Services.—Since a certain proportion of your production material and finished product is likely to move by rail, you should seek exact information on railway freight rates, both those for carload lots, and for less-than-carload lots, and for both inbound and outbound traffic. Some parts of Canada have lower rates on a given commodity for a given mileage than do other parts. This may be due to a greater

density of traffic in these areas, or the presence of highway or water competition, which forces the railways to reduce their rates between particular points. It will be beneficial to your business, other things being equal, to be located at a point from which you can ship on one of these reduced rates to large wholesale or retail buyers.

There are several types of special low rate, any one or more of which may be applicable to shipments to or from your proposed location. Wherever you are in Canada, you should find out whether the rates known as "agreed charges" can be negotiated, and whether they have been granted to any of your competitors. In Eastern Canada, you should check on the existence of areas in which cities and towns are "grouped" or "blanketed" for freight rate purposes.

You should talk over all matters concerning railway freight rates with divisional or district freight agents, with freight traffic managers in Moncton, Montreal, Toronto, or Winnipeg, or with officials of the Canadian Freight Association. The latter has offices at Montreal and Winnipeg. The C.N.R. have Freight Traffic Managers or Assistants specially assigned to rate matters in Montreal, Toronto, Winnipeg and Vancouver. The C.P.R. has Freight Traffic Managers and/or Assistant Freight Traffic Managers or General Freight Agents in the same cities, who are also especially concerned with freight rates.

Water Freight Services.—Inland water transportation is particularly important on the Great Lakes and the St. Lawrence River. Two types of freight service are provided, one for bulk freight and one for package freight. For rates on bulk cargoes you should consult individual steamship companies. Rates on package freight are published in the form of tariffs, within the territory Quebec to Fort William, which may be examined at the principal carriers' offices at various St. Lawrence and Great Lakes ports. Some bulk cargo rates are also published in the form of tariffs. You should also check on the regularity, dependability, and speed of the services provided.

Highway Freight Services.—Only a portion of the freight rates charged by highway carriers are published in tariff form. In many cases, carriers set their own rates and do not publish

them, and where this situation exists, you must consult individual operators to determine charges. The names of the carriers on particular routes may be obtained by writing to the various provincial motor carrier associations, a list of which will be found in Appendix B. Again, you should carefully examine the regularity, dependability, and speed of the services provided.

Air Freight Services.—Air freight services are provided by both scheduled and non-scheduled operators. Trans-Canada Airlines and Canadian Pacific Airlines are the principal scheduled operators. Their rates, which are published in tariff form, may be obtained through their local offices at principal airports or from the T.C.A. head office in Montreal or from the principal C.P.A.L. traffic office in Vancouver. The non-scheduled operators provide a variety of services between various points in Canada. You can obtain information on their rates and services directly from individual carriers. The Air Industries and Transport Association of Canada, 610 Blackburn Building, Ottawa, Ontario, includes in its membership both scheduled and non-scheduled operators, and can provide the names and addresses of operators rendering non-scheduled services. A second source of information on air services generally is:

The Secretary,
Air Transport Board,
No. 3 Temporary Building,
Wellington St.,
Ottawa, Ontario.

8. Market Area

A factor of first-rate importance is the volume of sales you will be able to make. You and the other producers located near you will tend to sell in a certain district surrounding your factories; this district is called your market area. It may be almost purely local in extent, or it may be hundreds of miles in diameter, depending upon circumstances. You will want to locate in a place such that both the market area and the portion of it which you can secure for yourself, will be as large as possible. A vast number of things will influence the size of your market area, two of them being your costs of production

and transportation, both of which have been treated already. A third is the number of your competitors, together with the vigour of their competition.

A fourth influence on the size of your market area will be the numbers and wealth of the population in the area surrounding your factory. Find out something about the proportions of the various income groups in the area. Determine whether it is likely to attract new industries in the future; if new industries arrive, population and incomes in the area will grow. It is well also to investigate the consumption habits of the population in the area.

If your product is one which is used by industrial firms, it is obviously desirable to locate near an industrial area, other things being equal.

If possible, you will want to locate in an area in which there are well developed distribution channels. You should make a survey of the retail and wholesale outlets in the area and find out something of the volume and range of their operations, especially in the type of product you will be making.

A further guide in determining the extent of the market you can reach is to find out the location of the wholesale firms throughout the country who are supplied by the manufacturers of your type of product in the area of your proposed location. Bear in mind that it may not be easy to draw customers away from their accustomed suppliers. But if you can produce at an especially low cost, or if you can locate so as to get the benefit of somewhat lower freight rates, you may be able to extend this market area or win customers away from your competitors with greater ease.

9. Local Laws and Taxes

The various places in which you are thinking of locating should be carefully compared as to number, kind and incidence of taxes, as well as methods of payment. You should find out the scale of licence fees or the rates of business tax applicable in various locations. Get information on provincial, county and local taxes on property and sales, as well as the reaction of local industry to the existing tax structure.

It is essential to learn of any local restrictions upon industry, such as laws prohibiting the pollution of the atmosphere with smoke or noxious gases, or of rivers with liquid wastes. Find out how existing industry reacts to these laws and their administration. At the same time, it is well to get some idea of the general attitude of provincial, county or civic governments towards industry and industrial development and any significant trends in the policies of these governments.

Over-All Appraisal

No one of these factors can be considered by itself and apart from the others; they must all be considered together. For instance, you may find that at location A, your cost of production would be low due to the closeness of production materials, cheap and good sites, and favourable fuel and power costs. But because A is relatively far from market, the railway freight to your customers would put you at a disadvantage as compared with your competitors. At location B, you may find that taxes would be lighter, you would be in the middle of a large market and also in a wholesale centre from which you could ship to customers on distributing rates. But you may find that labour costs are higher, sites more expensive, and the area has a record of industrial unrest. You must then set to work and estimate the influence of all these factors upon costs and sales in the two locations, and come to a decision on that basis.

Additional Sources of Technical Information

If questions of a technical nature should arise when consideration is being given to the establishment of a business or industry, the Technical Information Service of the National Research Council is prepared to offer certain kinds of assistance. This organization maintains field representatives across the country at the addresses given in Appendix C. They will assist by putting you in touch with local authorities, or with other sources of information, or by forwarding your enquiry to the Ottawa office. As well, enquiries may be sent direct to the Officer-in-Charge, Technical Information Service, National Research Council, Ottawa.

Apart from the technical services provided by various agencies of the Federal Government, facilities for research are maintained directly by some of the provinces, or are supported at provincial universities. The proper addresses will be supplied through the offices listed in Appendix A.

Chapter IV

LOCATION OF RETAIL STORES

When establishing a retail store, one of your most important problems is that of selecting your location. A store's location can make it or break it. Large firms select their store locations with great care, spending months in careful research, and then, sometimes, waiting years for the desirable location to become available. If you are an average small proprietor, you cannot afford to make elaborate surveys or wait for long periods of time, but you should consider the matter of location carefully. Bear in mind some general principles, and use some simple, reliable devices.

1. Selecting a Town

You may have decided on a town in which to go into business. Perhaps you are well known and well liked in the town where you live, and have decided to stay there. But you may have a number of other towns in your district in mind and are trying to choose between them, or you may have heard of some opportunity in a distant town and are trying to form an opinion of it. In either of these cases, the following paragraphs will be valuable to you.

The first aspect of a town to appraise is its general economic condition. You will want to know whether the population is predominantly commercial, industrial, agricultural, administrative, or a mixture of all four. Find out whether the town is old and well established, young and uncertain, declining or stagnant. Look for new housing and apartment buildings, new street developments and highways,—signs that a community is expanding. Gather some opinions as to how long the cause of this expansion will continue to exert its influence. If the level of business activity and employment are stable, the town

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will be a better place to locate than if it is subject to wide variations in employment. Note any variations in seasonal employment or any experience of long work stoppages: they will mean that a considerable part of your sales will fall off and you will be expected to extend credit. A place in which the population draws its income from a variety of sources will assure you of a steadier volume of business than a place in which one source of income predominates and is subject to wide fluctuations. You should also get an idea of the general income level, for the wealthier the people the more goods they will buy. Also, wealthier people will buy more of the higher priced, high margin items, and will exert less pressure for price reduction. They will want more credit and delivery service, representing an opportunity for the small businessman. If the town you are considering is one in which people draw their income from other towns or cities, you must look at business conditions in these other places. Try to get some idea of the extent to which such people shop in the cities where they work, rather than where they live. There may be an opportunity for you in such a "shop-away-from-home" community, but only if the habit is not too deeply set and is due to lack of adequate firms at home.

The next matter to investigate is the composition of the population of the town, a matter which will have an important effect on the type of sales which your store can make. For instance, a population which lives predominantly in apartments will not cultivate small gardens but will buy all its food. The population of a small town, however, will probably raise a large proportion of its own vegetable supply. If the population of a town habitually buys a large part of its requirements in another town or city, or if it is accustomed to buying on credit, the prospective proprietor should learn these facts before he sets up his store rather than find out by bitter experience that he cannot operate successfully, because he has overlooked an important factor. If the population is foreign born, its buying habits may be markedly different from those of people who have been raised in Canada. If some foreign language is spoken you may find yourself at a decided disadvantage unless you also can speak it. Religious considerations may affect the buying habits of a population, particularly in food and clothing.

Another factor which will influence your choice of town will be the size and type of store you are going to establish. Certain kinds of store, such as the shoe store or the sporting goods store, can be operated profitably only in towns of a certain minimum size. Some others, for example those selling artists' supplies or foreign books, can be operated successfully only in very large cities. Grocery or general merchandise stores are more generally capable of profitable operation in very small towns. Obviously, you will not establish a large department-type drug store in a town of 500, or a luxury restaurant in a farming community.

The matter of rentals needs careful consideration. The larger the town or city, the higher the rents in the business district are likely to be. The rent level should be compared with your estimated sales volume. High rents may be worth paying if the town yields a large sales volume, while low rents may be an evidence of a low level of business activity. The thing to avoid is locating in a town in which you cannot hope to do enough business to pay the prevailing rents.

In smaller towns, an important consideration is the town's ability to draw customers from the surrounding area. However, while the small town draws customers from rural areas, it also loses customers to larger centres if within about 40 miles of a larger community. The closer a town or small city is to a large one, the greater will be the extent to which it will lose trade to the larger one. Conversely, the further a small town is from a large city, the greater will be its ability to retain the trade of the surrounding area. The smaller town tends to lose trade in women's apparel, jewellery and silverware, to cities at least twice its size within a radius of 40 miles, but it tends to gain more trade in furniture from the smaller towns than it loses to larger ones. Towns within a 40 to 70 mile radius of urban centres twice their size can compete successfully for the business of the area in jewellery, clocks, silverware, and women's apparel.

To locate the boundaries of a town's trading area and estimate the potential sales in it, you could use figures on local newspaper circulation. Or, you could take down the licence

numbers of automobiles parked in a given town and check the location and ownership of these numbers with provincial auto licence bureaux.

The last great factor to consider in the town is the amount and kind of competition. Even if there is keen competition, there may be room for another store if it handles different lines of goods or different price ranges, stays open longer hours, provides better credit or delivery service, or adopts more aggressive sales promotion and advertising policies.

2. Selecting a Community

If you have decided to establish a store in a particular city or large town, the next step is to choose the section of the city in which to locate. In a small town this problem does not exist since there is only one shopping centre—the main street. But as a town develops into a city, and as a city grows, certain definite shopping areas appear. In making your choice, you should consider all those factors which were dealt with in the previous section, and a number of others in addition.

Because three terms will be used frequently in the following paragraphs, it will be well for you to become acquainted with them. They are "shopping goods", "specialty goods", and "convenience goods".

"Shopping goods" are those goods which involve comparatively large money outlays and which are bought at infrequent intervals. Because they are costly and because they are used for long periods of time, customers select them with great care. They find out what various stores have to offer, and carefully compare quality, style, and price, before making a purchase. Examples of shopping goods are shoes, dresses, suits, furniture, radios and automobiles.

"Specialty goods" are those which are not in the heaviest regular demand. The term includes items which are either rare, exceptionally fine, expensive or elaborate and therefore not carried by the merchant interested in customers with less specialized or less highly developed tastes.

"Convenience goods" include both natural commodities and those manufactured goods which are available in a number of well-known and widely distributed standard brands. Since a shopper can buy these commodities at a large number of stores without having to pay close attention to quality or price (both of which are standardized), the matter to which he gives the most consideration is that of the place most convenient to buy them. An outstanding example of convenience goods would be groceries, whether eggs, bananas, and other natural foods, or tinned meats, fruits, vegetables, etc. The important consideration in the mind of the person shopping for groceries is how to get them home. Except where shopping by auto, or delivery by the grocer is the rule, this usually means that the shopper buys his groceries as close to home as possible—where it is most convenient to do so.

The Central Business District.—The central business district is the main business area of a large city. Located at the focus of all transportation routes, it is sub-divided into specialized districts—wholesale, retail, financial, entertainment, etc. It draws business from the whole area of the city. Both pedestrian and vehicular traffic are high. Stores are narrow line shopping stores. Shopping, specialty and convenience goods, in that order, constitute the merchandise sold. The most successful types of store located in this area are cigar, department, drug, jewellery, men's clothing and women's clothing. Operating expenses in this district for all retail business combined are higher than they are in outlying areas, but this is not true of department, variety, millinery, custom tailor, radio and electrical shops, and highly specialized shops. Rents are high, although they are lower in relation to volume of sales for restaurant, general merchandise, and second-hand stores. Competition is widest in scope and highest in intensity here. The basis of business is price, selection and service.

If your capital is modest, it is unlikely that you will be able to set up a store in the central business district which would get a sufficient volume of sales to pay the high rent demanded. A good location is the most profitable one: this comes from a proper balancing of costs and sales. Your net profits may be higher at a low rent site with lower sales volume unless you can operate on a fairly large scale.

Outlying Shopping Areas.—Most large cities have not only central district but several major outlying districts as well. These are located at important mass transportation intersections or terminals. The vehicular traffic is moderate to high. Pedestrian traffic is heavy, the percentage of customers in it is medium to high and is composed of both residents and non-residents. Stores are seldom large. The sale of convenience goods predominates here, but shopping goods are growing in importance. Stores emphasize service and price.

Neighbourhood Locations.—Small clusters of stores are scattered over most of the residential districts of larger cities. Pedestrian traffic is low, but the percentage of it composed of customers is high. Shoppers are mainly resident. The vehicular traffic is sparse to moderate and mass transportation facilities are limited. Convenience goods are the main type sold, and there is generally a fair number of service establishments as well. Competition is narrow in scope and not very intense. The stores, which are seldom large, emphasize convenience and service. Their business comes from the immediately surrounding area and therefore depends on the density of the population, its income, its religious and ethnic characteristics.

String-Street Locations.—These are located on principal streets, either cross-town or radial. Traffic in such streets, both vehicular and pedestrian, is usually high, but the percentage of customers to total traffic is low. This is because these streets are main traffic routes for both private and mass transportation facilities. Patronage is both non-resident and resident. Competition is narrow in scope and high in intensity, the basic element being price, service and convenience.

Shopping Centres.—Shopping centres are a comparatively new type of business area. They may be divided into three types, neighbourhood, community and regional.

The neighbourhood centre, the smallest of the three, provides mainly for the sale of living needs such as foods, drugs, sundries and personal services. This centre usually includes up to fifteen stores of which a supermarket or a variety store is the largest. The neighbourhood centre requires a consumer population of 7,000 to 10,000 people.

The community shopping centre, the middle-sized type, in addition to providing for daily living needs, also includes stores selling family apparel, hardware, and household appliances. The community centre includes up to 30 stores and requires a consumer population of 30,000 to 40,000 people.

The regional shopping centre is the largest type. It offers all types of merchandise in full variety, including fashion items and house furnishings. Such a centre contains 50 or more stores and requires a consumer population of 200,000 to 300,000 people.

Shopping centres are established only after the most careful study by the promoters. Centres are designed to appeal strongly to the customer owning a car, much thought being given to location, parking facilities and traffic circulation. They also provide for the pedestrian's safety and convenience. Centres are planned so that the group of buildings has a unified and pleasing appearance and a maximum interplay between the store units.

The management of a shopping centre leases out space to carefully selected business firms. Generally the rent is based on a percentage of the tenant's gross sales, with provision for a certain guaranteed minimum annual rental. The management of the centre provides services such as general housekeeping, parking lot lighting, snow removal, and sometimes even heating and air-conditioning, the tenants being charged for these in proportion to their size. The management of the centre co-ordinates the activities of the merchants' association, and generally contributes to the promotional funds of the centre.

Estimating Potential Sales.—Before locating in any particular shopping area, you will want to have some idea of your potential sales. For the central shopping district and outlying shopping areas, sales for a new business are rather difficult to forecast except for men with considerable experience. For a neighbourhood store the problem might be approached in the following way.

The potential sales volume of a neighbourhood store will depend upon the size of the market area surrounding the location, the number of families in it, the total annual expenditures of

those families, the division of these total expenditures between food, clothing, housing, etc., and the number of stores competing in the market area.

Suppose that we examine the concrete example of a neighbourhood grocery store. In congested urban areas, grocers have found from experience, that most of their business comes from within one quarter mile of their stores, with a fair amount coming from within a second quarter mile. You should, therefore, examine the population of an area one half mile in radius, with your store as centre. Suppose that you find the number of families living in this area to be one hundred. From real estate agents and the housing and apartments advertisements of local newspapers, find out the rentals paid in these areas. For the years 1952 to 1954 inclusive, shelter (exclusive of fuel, electricity, gas, telephone and other expenses) averaged 12·8 per cent of total consumer expenditure in Canada. Fuel, electricity, gas, telephone and other expenses averaged another 11·1 per cent. Thus housing expenses came to 23·9 per cent of total consumer expenditures. If you find that the usual rental including fuel, electricity, gas, telephone and other items charged in the market area is $70 per month, or $840 per year, you can easily calculate the total family expenditures per annum. They will be $840 x 100/23·9=$3,515. Multiply this figure by the number of families, 100, to get to total expenditures in the area of $351,500. During the years 1952 to 1954 inclusive, food expenditures in Canada averaged 25 per cent of total consumer expenditure. The total potential volume of food sales, therefore, is 25/100 x 351,500=$87,875. If there are already four stores in the area, you should divide by five (to include the one you are going to establish) to get a potential sales volume of about $17,575 for your store. This assumes that all food is bought in the neighbourhood, and that sales are shared equally among all stores in the area. If many of the families in the area have cars, you should allow for their buying food elsewhere, especially at supermarkets on string-street locations or in outlying shopping areas. It would therefore be wise to revise the above figure downward. Remember that the revised figure represents only a potential sales volume. Whether you can

achieve it depends on how well you meet the competition of the other food stores in the area, and on the extent to which you can draw customers who previously traded in other areas.

For other types of store, the following table will be an aid in estimating the volume of potential sales in a given community.

Percentage of Total Consumer Expenditure Spent on Various Goods and Services

(Average of the Years 1952-54 Inclusive)

Food	25·0
Tobacco and Alcoholic Beverages	8·7
Tobacco	3·0
Alcoholic beverages	5·7
Clothing and Personal Furnishings	12·3
Men's and boys' clothing	3·1
Women's and children's clothing	4·9
Footwear	1·5
Laundering and dry cleaning	·8
Jewellery	·6
Other	1·4
Shelter	12·8
Household Operation	12·6
Fuel	2·8
Electricity	1·0
Gas	·3
Telephone	1·0
Furniture	1·5
Other	6·0
Transportation	12·0
Street-car, railway and other fares	2·3
New automobiles	4·4
Other user-operated	5·3

Personal and Medical Care and Death Expenses	6·5
Medical and dental care	1·6
Hospital care, private duty nursing, accident and sickness insurance	2·3
Drugs, cosmetics and toilet preps	1·5
Other	1·1
Miscellaneous	10·1
Motion picture theatres	·8
Newspapers and magazines	·7
Net expenditure abroad	·8
Recreation	1·4
Other	6·4
Grand Total	100·0
Durable goods	11·2
Non-durable goods	57·2
Services	31·6

Other sources of information on sales in an area are wholesale firms and trade organizations.

3. Selecting a Store Site

The final step is that of selecting the exact site. For a small independent operator who is going to locate in an established business community, this often amounts to taking whatever is available. But if there is any choice at all, there are certain principles which you should follow. You should use a check list based on these principles together with an occupancy map of the community which you have chosen, in order to select the best possible among the available places. These occupancy maps may be obtained from commercial map companies or from real estate offices. They show the type of business situated at each site along each street.

Affinities.—The first thing to consider is the matter of your neighbours. Certain retail stores seek to avoid other stores of the same kind for fear of losing sales to them. Other stores seek to locate near stores which are complementary to them

and tend to increase their sales. In selecting your site, you should be guided by these "affinities" as the established "neighbour-seeking" characteristics of a store are called. Some of the more important affinities for central shopping districts are listed below.

Type of Business	*Should Locate Near*
Department Stores	Women's clothing, shoe, variety, men's furnishings, and millinery stores.
Variety Stores	Women's clothing, shoe, department, jewellery, men's furnishing and millinery stores.
Furniture	Restaurants, men's furnishings, shoe, and women's clothing stores.
Florists	Restaurants, women's clothing, drug, and shoe stores.
Theatres	Restaurants, jewellery, men's furnishings and shoe stores.
Women's Clothing	Variety, department and shoe stores.
Millinery	Women's clothing, variety, shoe and department stores.
Men's Furnishings	Restaurants, theatres, furniture and men's shoe stores.
Haberdashery	Jewellery and men's furnishing stores.
Fur	Furniture stores, florists and shoe stores.
Candy Stores	Theatres, jewellery, variety stores and florists.
Tobacco Stores	Shoe and jewellery stores and theatres.
Restaurants	Florists, theatres, furniture and jewellery stores.
Curtain Stores	Furniture stores.
Paint Shops	Furniture stores.
Barber Shops	Florists, theatres, and jewellery stores.
Shoe Repair Shops	Anywhere except near a department or variety store.
Drug Stores	Anywhere except near furniture stores.
Grocery Stores	Seldom in central shopping districts.

Traffic Flow.—The importance of traffic, both vehicular and pedestrian, varies with the business. Some lines of business seek locations with maximum traffic flow because of the enlarged

volume of sales this traffic brings. Nevertheless, the make-up of traffic rather than its mere quantity is the factor of prime importance. Some traffic, such as housewives who go downtown between 10 a.m. and 4 p.m., contains a large percentage of shoppers, while other traffic, such as office workers on their way to work, contains a low percentage. For certain types of shops, potential proprietors are interested in only a fraction of the total number of customers passing prospective locations. For example, if you are opening a women's hat shop, you will be interested only in the number of female shoppers passing the site.

You may get traffic counts from transit companies, real estate brokers, or from business research organizations who provide this type of service. Or you can make your own traffic count.

Methods of making traffic counts vary. Counts are usually taken for half hour periods at the ends of the block and immediately in front of the proposed site. Some firms take counts during the entire time the store is open, while others prefer to take counts only during the busiest hours. Some firms, selling a variety of merchandise, and therefore interested in many sorts of people, count all people who pass a given location. Specialty stores count only those who are potential customers. Vehicular traffic should also be counted and estimates made of the number of passengers in the autos. You should make several counts, in different kinds of weather, on different days of the week, and at different hours of the day. Holidays, local events, and construction in the vicinity of the proposed location will all affect the flow of traffic past it.

On the basis of such traffic counts, two or more sites can be rated from the point of view of the potential customers passing them. Give the highest customer traffic site a 100% rating and grade the others in relation to it. If your capital is small, it may be that when you consider the higher rent charged at a 100% location, you will find it more profitable to locate at a 75%, or some other location.

Transportation.—Another important consideration is the availability of transportation facilities. Sites near important street railway intersections and transfer points are highly desirable, and are known as natural locations. They have definite

advantages over other locations in bad weather. You should appraise transportation facilities in relation to other factors. For instance, if you are in the millinery or women's apparel business in the central shopping district or in an outlying shopping centre, try to locate on the right hand side of a traffic artery leading from a high class residential district. If you are opening a service station, your site should be on a main highway or traffic artery and should be clearly visible for a block in either direction. If near a traffic signal, the station should be on the far side rather than on the near side, so as to give traffic time to decide whether or not to stop.

Parking.—Since an increasing number of customers shop by automobile, adequate parking space should be available. This is especially important for grocery stores, for people will not carry groceries any distance if they can avoid it.

Neighbouring Buildings.—Some sites are undesirable because of the buildings next to them. Locations near factories, garages, cemeteries, railroad yards, bluffs and hills, should be carefully considered because they may be unattractive to customers. The age and condition of surrounding buildings should be considered as well as the type of customer they attract. Vacant buildings may be bad neighbours. It is well to know whether the building you are thinking of occupying was empty for any considerable length of time, and if so, why.

Lease.—The type of lease available is an important consideration. The lease which provides for a fixed monthly or annual rental regardless of business conditions is advantageous to a businessman if times are good, but in a depression it can be a major handicap. The percentage lease partially overcomes this handicap. Still better is the graduated percentage lease, in which the rental is a graduated percentage of the store's volume of sales. This means a higher rent in booms, and a lower one in depression.

The length of the lease is a matter to consider carefully. If you are just starting up in business, a lease of a year or two is probably the longest you should sign. This will give you time to try out the site and see if it is satisfactory. If you can obtain a lease which is renewable at your option, you can retain or give up the site as you wish.

Chapter V

RETAIL STORE POLICIES

In retailing you need an overall plan which will assure that all your objectives are directed towards the same goal. Clear-cut objectives will help to prevent you from getting lost in a maze of detail. A specific goal with all aspects of policy contributing towards it will protect your firm against the unsettling effects of isolated or temporary influences. A sound retail policy aims at conserving your capital and expanding your sales. It also aims at conserving your own time and energy by giving employees guidance in making everyday decisions.

Characteristics of Sound Policy

A sound policy will meet the needs of the customers you wish to reach. Reaching your customers requires that policy be a planned development rather than a series of piecemeal decisions taken on the spur of the moment to gain a temporary profit. For the guidance of both your employees and your customers, these policies must be clear and definite. They should be consistently applied so as to prevent charges of favouritism. Your policy should promote a definite character for your store, not only to attract the customers you wish to reach, but also to give your store some protection against direct price competition. Finally, your store policy must have some degree of flexibility so that it can, without losing its distinctive character, adjust to basic changes in the business world around it.

Scope of Retail Store Policy

Before going into a detailed discussion of the matters underlying your choice of particular policies, it might be well to indicate the scope of retail store policy.

A. *Merchandise Policy*

1. Type of merchandise
2. Number of lines
3. Assortments within lines
4. Quality of merchandise
5. Style considerations
6. Exclusiveness

B. *Price Policy*

1. General: high or low prices
2. Discounts
3. Number of prices in a line of goods

C. *Promotional Policy*

Your choice: highly promotional store or a more conservative type?

D. *Service Policy*

1. Personal service or self-service
2. Credit
3. Delivery
4. Returns and adjustments
5. Telephone and mail orders
6. Alterations
7. Parking

Factors to Consider in Selecting Policies

A good store policy is not developed by chance: it is the result of careful thinking about a number of important factors.

1. Consider the Consumer Population You are Aiming at

Even if you had the inclination, you could not serve all groups of consumers or even one group with all its needs. So you must decide which group of customers you will serve[1]. Consider the income-level of the group you are aiming at; this

[1] See Chapter IV, pp. 33 to 36, for detail methods of estimating sales volume.

will be important in determining the quality of merchandise you will carry. Age grouping may be an important consideration in certain lines such as apparel. One of the ways of developing a distinctive character is to cater to a particular age group. In some types of store it may be necessary to appeal to either men or women, but not to both, for sometimes members of the one sex do not care to buy certain articles in the same store as members of the other sex. Then again, the customers you aim at may have certain definite buying habits which you must take into account,—such as a demand for delivery or credit or a preference for certain foods.

2. Adapt Your Policies to Your Capital

Another very important factor to consider in thinking out your store policies is the amount of capital you have available in the form of your own funds, bank loans, or trade credit. Sometimes retail failure, supposedly due to insufficient capital, is really due to a lack of policy or one that is unsound in relation to the capital available.

In adjusting your policy to your capital, you must consider four types of expense: fixed assets, current assets, operating costs, and losses during your initial period of operation.

Fixed Assets.—Of course it is absolutely essential that you have a store building in which to carry on your business. It is sound policy not to build or buy a building if a suitable building can be rented. Suitable in this case means consistent with all other aspects of your store policy. A young business should be free of the added cost and responsibility of building ownership especially if the capital of the proprietor is limited. But it is most likely that the building you rent will require remodelling and redecorating and in most cases you will have to pay for this yourself. The appearance of the store, both inside and outside, should be of the type which will appeal to the group of customers you wish to serve.

Fixtures and Equipment.—The number and kind of fixtures you have in your store will depend to a large extent on the type of store, the type of service rendered, and the number of lines of goods in the store. Obviously, the type of fixture required for a grocery store is different from that needed in a

men's wear shop. In food stores, the type of fixture and indeed the entire layout will depend on whether the store is to be a self-service groceteria or not. If frozen foods are to be handled, special equipment will be necessary. Generally, any type of store which relies on customer self-service will require different fixtures than one in which the employees provide a great deal of personal service. If you sell on credit, you should plan on making some outlay on such things as ledgers, typewriters, accounting machines, adding machines, and files. Also, you should have a safe in which to store your accounts receivable and other documentation (e.g., unemployment insurance books and stamps, income tax deduction records, municipal or provincial sales tax records) which should be treated as carefully as cash.

Current Assets.—Total capital requirements in retailing are very largely determined by merchandise inventory. Inventory size and type, in turn, are governed by the goals set for the business and by the expected sales volume. Different types of business need different amounts of inventory in order to produce the same volume of sales. For instance, the inventory required by a jewellery store to produce $1,000 worth of sales is many times the inventory required by a butcher shop to produce the same amount. From inventory-turnover ratios you can get an idea of the average inventory required to produce any given volume of sales for a particular type of business.

In Canada, individual reports are issued by the Bureau of Statistics in Ottawa on the operating results of a number of different types of independent retail stores. These may be ordered from:

The Queen's Printer,
Ottawa, Canada.

at twenty-five cents per copy. From these reports you can find out a great deal about the cost of operating a small business.

Clear-cut objectives enable you to economize on your capital requirements. A specific appeal to a restricted consumer group may be more effective than a more general appeal to a larger group.

Again, if a credit business is done, capital will be required to finance your accounts receivable. This may be a considerable amount of money. If the amount needed is too high, it might be well to rely on a cash sales policy even if it means that your potential sales volume will be lower.

Initial Period of Operation.—You would do well to plan on having deficits during the first weeks or months of operation while your store becomes known and attracts a steady clientele. You will have operating expenses such as light, heat, and employees' wages during this first period, and your sales will probably be small and only grow gradually.

If your capital is limited, a proper choice of policy can help you reduce these initial losses. If a store is set up during a period of temporary depression, it will tend to have lower initial losses if its policy is one of economy rather than of quality and exclusiveness. Avoidance of novel goods or novel methods of operation will also help toward this end. Stores handling medium-priced shopping or convenience goods attract sales more quickly than specialty stores[1].

Stores which appeal to customers on the strength of quality and service will often have higher fixed costs, because those who buy on this basis prefer a store with an expensive appearance. Furthermore, establishing such a store's personality requires time, so that the period of initial losses is likely to be longer. Hence your capital requirements will normally be higher for this type of store than for one featuring economy prices.

3. Adapt Your Policy to Your Own Abilities

Your policies ought also to be adapted to your personal ability, your experience, and your knowledge of merchandise. This is a matter of crucial importance. Prosperous grocery businesses have been ruined when the proprietors added a fresh meat business without having any knowledge of how to buy, cut and sell. A person going into a credit business should have an aptitude and liking for bookkeeping and accounting; or if he has not, he should make sure that one of his employees has

[1] For the meaning of the terms "shopping goods", "convenience goods", and "specialty goods", see Chapter IV, pp. 30 to 31.

such ability. Many a successful business has grown out of a hobby, in which case, the owner's interests and abilities were of the type which could be used profitably in a particular business environment. It is very unwise to go into a line of business for which you are clearly unsuited.

4. Adapt Your Policy to Your Competition

Before you decide on exactly what kind of store you are going to establish, take a careful look at your future competitors in the area you have in mind. How well do they serve the customers' needs? Do consumers buy a large part of their needs out-of-town? Do they return a large fraction of their purchases? Are existing stores adequate in a neighbourhood which is growing rapidly? If consumers shop out of town to a considerable extent, or return many of their purchases, or if there is a very large new housing project being opened up in the area, there may be room for you to develop a satisfactory sales volume. Similarly, you may be able to attract a clientele if the existing shops give inadequate service, or price their goods too high, or have allowed their stock of goods to become obsolete. On the other hand, if a given area has what seems at first to be inadequate shops, this may be because the area is too small to support shops of the sort you have in mind.

When establishing a store in an area where there is already a successful business, you have two alternatives before you. The one is to imitate the successful store. This you should do only if there is a large enough consumer population. Remember that if two stores are much alike, consumers will shop on the basis of price. The other alternative is to develop a store different from that of your competitor—different in service, quality, or price level. Again, do this only if you are sure there is an adequate sales potential.

5. Adapt to Current Conditions

Your financial strength will determine the extent to which you can disregard current conditions in setting up your business. If your capital is limited, it is wise to cut your initial losses as far as possible. In a period of depression, do not establish a store which has a very high-price, high-quality, or high-service policy unless you are ready to stand losses for a considerable

period of time. In a prosperous period, when customers are likely to "trade up", it is not wise to establish too low-priced a store. On the other hand, it is unwise to completely change the character of your store across the business cycle let us say, from a high-price, high-service store in a prosperous period to a low-price, low-service store in the depression in an attempt to get the best of both situations. Changing the character of a store will lose you one group of customers, and force you to compete for the trade of another group which customarily shops somewhere else. After you have established your store, a wise policy is to keep it in its place in the scale of high and low-price stores, lowering prices in a depression, raising them in a boom, but always staying in the same general place with respect to your competition which presumably will also be raising or lowering prices.

Integration of Policy

Location.—As the question of where to locate your store was taken up at length in Chapter IV, the matter will only be mentioned here. The two chief things to keep in mind in integrating your location policy with other aspects of policy are: (1) locate your store so that it can reach the consumer groups it is intended for; and (2) keep your location consistent with other aspects of policy.

Building and Equipment.—Make your building and equipment attractive to the group of customers you have in mind. A different type of building is required for a store appealing to a very wealthy clientele than for one appealing to those whose incomes are in the $2,500-$3,000 per year category. A men's clothing store should have an interior different from that of a store handling babies' and infants' clothing or shoes exclusively.

Again, if your promotional policy is one of high-pressure salesmanship, your store-front, signs, and price cards throughout the store should be in keeping with this policy. Crowded floor displays or window displays are suitable when your main appeal is low price, but are completely out of place if your policy is one of quality or exclusiveness.

The amount of floor space will have to be greater if patronage is uneven during the day than if it is uniform. The number of display fixtures will have to be larger and the type of fixture appropriate if you are going in for a customer self-service policy.

Type of Goods.—You must decide what related lines you will have in your store, their quality, the number of units you will stock, and the proper inventory-sales ratio. Equally important decisions must be made about the emphasis to be placed on style. The quality and style of merchandise must be consistent with the customer group you aim at and also with your promotional policy. Heavily promoted, high-style clothing in a modernistic building will probably appeal to a younger group of men. It is not likely to have the same appeal for older men. Novelty goods will have a higher mark-up than more staple types, because mark-downs or dead stock are likely to make up a larger fraction of your purchases.

Prices.—An important group of decisions must be made about prices. The general level of prices must be related to your store's service policy and the income groups you intend to attract. If you wish to attract several income groups, you should have more than one price within a given line of goods. Usually, three price lines are carried. For example, a shoe store may carry men's brogues priced at $14.95, $19.95, and $27.95 to appeal to men of varying incomes in the middle-to-upper income brackets. A store aiming at lower income groups would probably carry men's shoes at $7.95, $10.95, and $12.95. The number of price lines must also be related to your working capital, for a large number of price lines raises your working capital requirements.

Again, there should be consistency as to price among all the different lines of goods carried in the same store. For example, you should not carry $40.00 men's suits and then stock men's shoes at $28.00 per pair, for the group which buys the one article will not buy the other: if your store appeals to the man who can afford the shoes, it probably would frighten away the man who wants the suit. Trying to appeal to too great a range of incomes is usually poor policy for it means that those shops which specialize in appealing to particular groups will have wider selections of the appropriate goods.

Prices must take account of competition also. You should or should not meet the lowest prices of competitors depending chiefly on circumstances. It may not be financially feasible for you to try to meet the prices of a much larger, stronger competitor. Again, doing so might destroy the reputation of your store for quality or exclusiveness. The more your store resembles that of your competitor, the greater the extent to which you will be forced to meet his prices.

Buying.—Don't take advantage of any special offers unless the goods fit in with your merchandising policy. Buy goods to fit your overall plan.

An important question of policy arises when considering new goods. Here are a few suggested rules-of-thumb about these. Buy new goods only if they:

(1) will not interfere with the sale of merchandise you already carry;
(2) can be accommodated in your store without alterations to building or equipment;
(3) can be sold to your present customers;
(4) can be adapted to your promotional plan;
(5) will not make additional services necessary.

Occasionally, you will have to add merchandise which breaks one or more of these rules. Breaking of these rules-of-thumb should make you realize that you are thinking of a major change, not a routine matter, and that the change should be considered very carefully in relation to your overall policy. Apart from the above considerations, a new product should be added to your stock only if it is profitable. As a minimum, it should sell for a price that will cover direct costs and make some contribution towards your fixed costs. If the new product displaces one you already carry, compare the profitability of the two.

Sales Promotion.—Sales can be promoted by window display, interior display, personal salesmanship, advertising and special displays. Advertising can make use of one or more of several media—newspapers, radio, television, mail or handbills—while special displays include those at fairs or exhibitions. Your promotional policy should appeal to the consumer group at

whom it is aimed, agree with the store character and its merchandise, and be consistent over time. For example, groceries, drugs, or small household items can be promoted successfully by handbills, but if handbills were used to advertise furs or jewellery, they would tend to cheapen these items in the mind of the consumer. Expensive items can be promoted by direct personal mail. In durables, personal salesmanship is highly essential, although the advertising of many appliances and other durables is done largely by the manufacturers.

Credit Sales.—As the subject of credit sales is dealt with at length in Chapter VIII, little will be said about it here except to point out how it should be integrated in over-all policy. As credit service means higher prices, it does not easily go with economy prices. Certain groups of people such as fishermen or farmers may require credit over extended periods of time until the catch is landed and sold, or until the crop is harvested. Certain types of merchandise such as household durables often must be sold on credit (instalment buying) if they are to be sold in volume, while variety stores or restaurants do not sell on credit at all. Delivery service and credit sales usually go together, as customers expect them to.

Delivery.—In larger centres you will have a choice of three types of delivery service: one owned by yourself; one owned and operated jointly by yourself and other businesses; and one owned by a separate concern which sells its services to you and to other businessmen. Compare the relative cost of each type of service and relate the cost to your price policy. Also, think of the type of service in relation to your promotional policy: a good way to build up goodwill is to have your own delivery service. If you operate your own delivery service, set limits to its scope: establish a minimum size of order and limit the number of deliveries per day or per week and the area in which delivery is made.

Miscellaneous Services.—Much the same decisions should be taken with regard to such matters as merchandise returns, telephone orders, garage service or parking, and alterations and fittings.

In all of these, see that the service (or the lack of it) is in line with your general policy. Set limits to the amount of service provided free, or make it clear that there will be a charge for it.

Revising Your Policies

Throughout the above paragraphs we have emphasized the need for consistency in store policy. Because the character of a store is established only in the long-run, policy changes should be held to a minimum. Policies well chosen can be profitable until basic conditions change, but when conditions do change, policies must be altered. Management's job is to see the difference between basic changes in the business environment and merely temporary, unimportant changes.

As the matter of new products has been dealt with above, it will not be discussed at length here. Try to find out if the demand for a new product is likely to be a sustained demand or a temporary fad. Find out if consumer tastes are changing by keeping a record of calls for merchandise not in stock, or any expression of dissatisfaction with sales or service. Watch the practices of your competitors, and read trade publications for news of new products or trends in general buying habits.

New retailing methods may be made necessary by changing conditions or a new competitor in the area. But do not adopt blindly, any new method of store layout that comes along; it may be better to wait and see how it works out in other businesses. If it is successful, ask yourself whether it is applicable to your type of business.

Another situation which may call for revised retail policies is a shift in shopping areas. Such a shift may occur because of altered urban transportation routes, changes in the character of the shopping area, shifts in residential areas of the type your store caters to, or the establishment in the area of manufacturing plants. When such changes occur, you face the choice of altering your store policies in conformity with the changed circumstances or of changing the location of your store. Often a policy change is more difficult in an old store than in a new one. If you decide to stay on in your old location and change other aspects of your policy, tell your customers of the change by all possible means—letters, personal interviews, radio and newspaper advertising. Try to explain to your customers how the change will be of benefit to them.

Chapter VI

RECORDS AND ACCOUNTS

Maintenance of proper records and accounts is one of the factors essential to the success of a small business. Various surveys which have been made in an attempt to find out why so many small businesses fail show that a large percentage of those which have become bankrupt either kept inadequate records or none at all. While record keeping will not insure your success, it will keep you informed as to progress of your business and disclose faults in operation which might be disastrous if not detected in time.

There are many other reasons for keeping proper records. Suppliers and banks require financial statements before advancing credit, as would anyone interested in investing new capital or any prospective purchaser of your interest in the business. Income Tax regulations require definite supporting evidence of all transactions undertaken during the year, while the Customs and Excise Branch and various other Government agencies, both Federal and Provincial, with which your particular industry may be concerned, require that certain information be reported periodically.

In order to give all the information you require, records should not be complicated nor too greatly detailed, but should be as simple as possible and require a minimum amount of time to maintain.

It is recommended that you engage a reputable professional accountant, from whom you may expect the best and most up-to-date advice available as to accounting methods and procedure, in addition to providing auditing services. While especially printed forms are not essential, (standard ruled forms, punched to fit a loose-leaf binder being obtainable from any office stationery supply house), you and your auditor should not overlook the fact that there is available to you the advice and assistance of a number of nationally known makers of cash registers and

the like, as well as designers of business forms. These makers have specialized in equipment and supplies individually suited to practically any type of business. Their products are designed to provide all necessary accounting information with the expenditure of a minimum of time and labour.

Accounting Records

The accounting records and procedures of a manufacturer or processor are somewhat more involved than those of a wholesaler or retailer who buys goods ready for sale. For the sake of illustration, the following is considered an adequate set of accounts and accounting records for a small or medium wholesale or retail sales business, dealing with its customers on the basis of both cash and credit:

1. Purchase Book or Accounts Payable Register

In this book should be recorded all purchase invoices. It should be a book containing approximately ten columns which could be headed up as follows:

Date	Voucher No.	Creditor's Name	Cr. Accounts Payable	Dr. Merchandise	Dr. General Expense	Dr. Maintenance and Repairs	Dr. Sundry	
							Account	

2. Cheque Register

In this book should be recorded all cheques issued. In each case, the bank is credited and the proper account debited.

If in payment of an invoice which has gone through the purchase book, the creditor's account will be debited; in any other case the proper expense account or asset account is debited.

Date	Cheque Payable to	Cr. Bank	Dr. Accounts Payable	Dr. Petty Cash	Dr. Salaries	Dr. Sundry	
	Cheque No.					Account	

If desirable, a separate payroll record may be maintained, showing all deductions, etc.

3. Sales Book or Accounts Receivable Register

In this book should be recorded all charge sales. Probably only four or five columns will be required.

Date	Debtor's Name	Accounts Receivable Dr.	Accounts Receivable Cr.	Sales Dr.	Sales Cr.	Cr. Sundry	
						Account	

When a sale is made Accounts Receivable is debited and Sales credited and when a credit note is given Accounts Receivable is credited and Sales debited.

4. Cash Receipts Book

In this book, all cash received is recorded. When cash is received Accounts Receivable are credited if the sale had been previously recorded in the Sales Book described in (3) above or Cash Sales is credited. When a deposit is made in the bank, Cash is credited and Bank is debited.

Date	Received from	Dr. Bank	Cr. Accounts Receivable	Cr. Cash Sales	Cr. Sundry	
					Account	

NOTE: The makers of business forms can provide a type of manually written continuous form automatic register which will handle all sales whether cash or credit, and the receipt and disbursement of cash. This record is used in conjunction with a cash register. The top copy of each individual slip tears out for customer use, but the carbon copy remains locked in the register to insure against loss of record. The authorized person unlocks the register, withdraws each day's carbon copies and summarizes same for entry by daily total only in a record which can combine such records as the sales book and cash receipts book referred to as items 3 and 4 above.

5. General Journal

In this book are recorded the opening entries, adjusting entries and closing entries. All entries should be supported by explanatory narrative. One debit column and one credit column are often sufficient.

Date	Accounts	Dr.	Cr.

6. Petty Cash Book

In this book are recorded minor disbursements. A cheque is usually drawn for petty cash for a round amount. When the fund is nearly depleted, another cheque is drawn for the amount spent.

Date	Description of Disbursement	Cr. Petty Cash	Dr. Merchandise	Dr. General Expense	Dr. Maint. and Repairs	Dr. Sundry	
						Account	

In addition to the foregoing, a memorandum record of all sales might be maintained for purposes of recording sales tax payable, showing the following information.

Date	Sales		Total	Non Taxable	Taxable	Amount of Tax
	Cash	Credit				

7. Ledgers

(*a*) General Ledger. In the general ledger is kept a separate account for each asset, liability, capital account, income account and expense account. Totals are posted from each of the books of original entry at the end of each month.

Bank

Date	Folio No.	Dr.	Cr.	Balance

It is very important to insert the date and the folio number when posting the ledger. The folio number enables you to trace the entry back to the book of original entry.

(*b*) Accounts Payable Ledger. A separate account is kept for each creditor. Postings are made usually from the purchase book and the cheque register. An accounts payable ledger may be dispensed with if accounts are paid regularly and periodically by serially numbering the vouchers and entering number in cheque register when paid and entering cheque number on the voucher.

(*c*) Accounts Receivable Ledger. A separate account is kept for each debtor. Postings are made from individual accounts from sales book and cash receipts book.

For a small cash business, the purchase book, sales book, accounts payable ledger and accounts receivable ledger may be dispensed with.

Inventory Accounting

Cash in hand, cash in bank and customers' accounts receivable are assets which lend themselves readily to control and safeguard. Inventories on the other hand, depending on their size and variety, can be a source of serious loss to a businessman by theft, deterioration, simple failure in recording, or other causes. Subject to the advice of the professional accountant

you engage, you should maintain a detailed and up-to-date written record of your *main* stock; and check and verify it by physical count if not completely once a month, then at least on the basis of a continuous count to ensure that each item will be counted and reconciled with the record at least once per year. Your store or showroom stock, from which sales to customers will be drawn, must be physically counted and valued as of each month end.

The aggregate value of the main stock, prepared from the written record, and the store stock will provide the total worth of your inventory for purpose of your month end statement of profit and loss and your balance sheet.

Profit and Loss Statement

In a Profit and Loss Statement, income from sales is set off against the cost of goods sold and other expenses for the same period. Through this comparison of income and expense, you may determine the net profit earned during that period. The Profit and Loss Statement summarizes the business operations as follows:

Sales	$	—
Less: Cost of Goods Sold		—
Gross Profit on Sales	$	—
Less: Total Operating Expenses		—
Net Profit on Sales	$	—

The Sales figure for the period is obtained by taking the total of sales charged to customers as per the Accounts Receivable Register less any returns or allowances, plus sales made for cash as shown by the Cash Receipts Book, less any refunds or allowances made in cash.

The Cost of Goods figure is determined by taking the total cost of the inventory of merchandise on hand at the beginning of the period, adding thereto the cost of merchandise purchased during the period, and deducting from that total the total cost of the inventory on hand at the close of the period, as per the following summary:

Cost of Goods:

	Inventory, January 1, 19—...............	$ —
Add:	Merchandise Purchases Jan. 1-31, 19—...............	—
		—
Less:	Inventory, January 31, 19—.............	$ —
	Cost of Sales for January, 19—..........	$ —

By deducting the Cost of Goods from Total Sales, the Gross Profit on Sales is ascertained.

From the Gross Profit on Sales are deducted the Total Operating Expenses, as shown by the various expense accounts in the General Ledger, to give the Net Operating Profit or Loss for the period.

From this figure is deducted (or added) the net amount of any Other Income and Expense not related directly to the operation of the business, such as Cash Discounts Earned, etc., to give the Net Profit or Loss for the period.

Profit and Loss Statements should be prepared monthly in order to provide regular information as to the margin of profit which the business is currently earning, and the trend of such profits. In this way, immediate action may be taken in the event of the profit margin falling below what is considered to be a satisfactory or safe percentage of profit in the particular type of business.

A useful analysis of the Profit and Loss Statement may be made for purpose of making monthly comparisons, by taking each item in the Statement and expressing it as a percentage of Sales. For example:

			% of Sales
Sales		$10,000	100·0%
Less: Cost of Goods Sold		8,000	80·0%
Gross Profit on Sales		$ 2,000	20·0%
Less: Operating Expenses:			
Wages	$800		8·0%
Rent	200		2·0%
Advertising	50		·5%
Operating Supplies	50		·5%
Bad Debts	25		·25%
Depreciation	50	1,175	·5%
		$ 825	8·25%

By carefully watching the various items of expense from month to month, and, if possible, by comparison of your percentage with those of other firms known to be well established in similar businesses, it is possible to note immediately any item of expense which is out of line and should be reduced, or any item which should be increased, as the case may be, to result in a more successful operation of the business.

From this Statement you may also ascertain the rates of Inventory Turnover, i.e. the ratio of total cost of sales for one year to the average inventory carried from month to month will give the number of times that the stock was turned over during the year. This ratio will vary with different types of businesses, but should be carefully watched and compared with the known results of operations of successful firms engaged in business of a similar nature.

The Balance Sheet

The Balance Sheet gives a summary of the financial position of a business at a given date, showing, on one side, all assets of the business such as cash, accounts receivable, merchandise

inventories, and fixed assets, e.g. buildings, plant and equipment, trucks, etc. On the other side of the Balance Sheet are shown the liabilities of the business, such as accounts payable to creditors, amounts due to the bank, amounts due on long term credit, e.g. notes payable, mortgages payable, bonds, etc. The difference between the total assets and total liabilities represents the Net Worth of the business, or the value of the proprietor's interest therein.

The figures for the Balance Sheet are taken from the General Ledger accounts described in the previous paragraphs. The following is a simple example showing the general set up and the items which comprise a balance sheet.

Balance Sheet as at December 31, 19—

Assets		*Liabilities*	
Current Assets:		Current Liabilities:	
Cash	$ —	Accounts Payable	$ —
Accounts Receivable	—	Bank Loans	—
Merchandise Inventory	—	Notes Payable (due within 12 months)	—
Total Current Assets	$ —	Total Current Liabilities	$ —
Fixed Assets:			
Plant and Equipment	$ —	Notes Payable (due beyond 12 months)	—
Less: Reserve for Depreciation	—		
Delivery Equipment	—	Capital (Net Worth):	
Less: Reserve for Depreciation	—	Capital Stock	$ —
		Proprietor, personal	—
Total Assets	$ —		$ —

The item of Cash should represent the total of cash on hand and cash in bank, after having made a reconciliation of the actual bank balance with the General Ledger Bank Account, taking into account outstanding cheques, outstanding deposits, etc. at the balance sheet date.

The figure of Accounts Receivable represents the total of all balances owing by customers at the date of the balance sheet. If an Accounts Receivable Control Account is maintained, this figure should be checked by making a list of the balances in the customer's ledger and agreeing this total with the Control Account.

The value of the merchandise inventory is obtained by taking a physical count of the stock and valuing it at cost or market price, whichever is lower. In certain instances, inventory book figures may be used where it is not practicable to take a physical inventory each month.

The figure of Fixed Assets represents the original cost values taken from the individual record of permanent equipment, usually known as the Plant Ledger. The total of the accumulated reserves for depreciation should also be obtained from this record which should show the amount of depreciation charged during each period.

The amount of Accounts Payable represents the total of all invoices covering goods or services received but not paid for at the balance sheet date.

Bank Loans and Notes Payable represent amounts due to the Bank and to other creditors holding notes of the business payable within twelve months of the date of the Balance Sheet. Longer term liabilities, such as Notes due beyond twelve months from balance sheet date, or Mortgages payable over a period of years, are segregated from current liabilities and shown separately on the liability side of the Balance Sheet.

The Capital section of the Balance Sheet indicates the owner's investment in the business. Capital stock, or invested Capital, represents the permanent investment in the business, while the proprietor's personal account represents the accumulated profit or loss on operations to date less any withdrawals therefrom by the owner.

The Balance Sheet, like the Profit and Loss Statement, may be used as an aid to management. The use of Balance Sheet ratios is similarly the most convenient form of analysis.

The ratio of Current Assets to Current Liabilities is a most important comparison to watch, since it indicates the ability of a business to meet its current obligations, i.e. those maturing within one year. A current ratio of 2:1 is usually considered satisfactory, but some consideration should be given to the degree of liquidity of the items comprising the current assets and to the urgency of meeting the current liabilities. For example, merchandise inventories might not be convertible to cash for six months to a year, while certain accounts payable might be due immediately or within thirty days. A study of the current ratio should therefore be supplemented by a cash budget, showing the cash which will be available to meet cash requirements within a given period.

Another important ratio is the Ratio of *Net Worth to Fixed Assets.* Many small businesses get into serious financial difficulties by purchasing plant equipment and other fixed assets without sufficient permanent capital investment. In general, the proprietor should have at least enough capital invested to pay for most of his fixed assets, so that a ratio of net worth to fixed assets of 1:1 would be considered satisfactory in most cases. If equipment requires replacement at regular intervals, the Fixed Assets should be valued at replacement cost in computing this ratio. Depreciated values may be used where it is not considered necessary to replace the assets provided they are properly maintained.

The Ratio of *Net Worth to Total Liabilities* indicates the adequacy of the amount of capital invested in the business. Generally speaking, the proprietor should have at least as much invested in the business as the total amount owed to creditors, so that a Ratio of Net Worth to Total Liabilities of 1:1 would indicate a satisfactory condition.

Finally, one of the more important ratios from the point of view of the proprietor, is *Net Profits to Net Worth Ratio,* which indicates rate of return which he receives on his capital investment. This ratio, expressed as a percentage, will enable the proprietor to assess the value of his business in terms of its earning power, and to compare his operations with others of similar type. It will also permit him to compare his own business with any other type of investment for which the earnings are known.

Careful analysis of the Balance Sheet by use of the foregoing ratios may reveal an unfavourable combination of circumstances which, if known, may be remedied before too late. It will also assist in making the most effective use of resources at the proprietor's disposal.

Chapter VII

USES AND SOURCES OF CREDIT

The term "credit" indicates belief in a man's ability and willingness to pay a debt. Whenever any other businessman sells you goods or lends you money on the understanding that you are to pay for the goods or repay the loan at some future date, he is extending you credit. He is your creditor, and you are his debtor. It is then your duty to manage your business so that you can repay the loan or discharge the debt on the date on which you and your creditor have agreed. Among other things, you must know when and how to use credit, and terms on which to accept it.

The discussion which follows gives a somewhat simplified picture of the use of credit and the services of credit institutions and is intended only as an introduction to these matters. It should be realized that there are many exceptions to the interest rates mentioned throughout the text. Particular circumstances and personal factors enter into the making of loans, and the rate on any particular loan is a matter for negotiation between lender and borrower.

How to Use Credit

Use credit as a money-making tool. You should treat credit as you would adequate lighting, a new machine, or a more efficient display counter. Each of these things costs money, and you would install and use any one of them only because it would increase your net sales more than your costs. Similarly, you should use credit only when its use will increase your net sales by an amount greater than the total cost of accepting such credit.

The only time you should break this rule is when your firm runs into a serious but temporary financial reverse. Then you may have to borrow merely to pull yourself out of the

difficulty. You should make sure, however, that the reverse is purely a temporary one. Perhaps your competitors are marketing an improved product and you must follow suit in order to compete. Or, perhaps they have added some device for shoppers' convenience which you must meet if your store is to continue to draw trade. You must react quickly to these situations to stay in business and you may need to borrow to do it. But you cannot make up for inefficient employees, sloppy business practice, or poor location by financial pump-priming. Such deep-seated difficulties need more radical treatment than the temporary "lift" given by a loan.

As a safeguard against financial reverses, you should look ahead for five or more years. You should draw up alternative sets of plans to meet varying business conditions, and decide what types and amounts of credit are necessary to put these plans into operation.

When to Use Credit

There are two main purposes for which credit is used. The first of these is the acquisition of fixed assets. Fixed assets are physical objects which are not ordinarily sold in the course of business, but which are retained in it and worn out gradually during their period of use. The cost of such objects is a fixed cost, because once you have bought them, their cost remains constant regardless of your sales volume. Included in the category of fixed assets are land, buildings, office equipment, machinery, lighting fixtures, and display counters.

You may acquire the funds necessary to purchase fixed assets in one or more of three ways. Firstly, you may rely partly or wholly on equity (or ownership) capital by contributing your personal funds or by selling a partnership interest or capital stock to someone else. Secondly, you may finance your fixed assets internally from net profits, provided they are sufficient. Thirdly, you may borrow the money from a financial institution, from other businessmen, or from personal friends. It is only with this third method of acquiring funds that this chapter is concerned. Loans for the purchase of fixed assets are normally for terms longer than loans for other purposes.

The second main purpose for which credit is used is for working capital. Working or operating capital is a term used to designate those funds used to pay the salaries or wages of employees, to purchase supplies and stocks of goods, or to extend credit to customers. Working capital may come out of ownership capital, in fact it is usually good policy for a firm to provide for its normal working capital requirements in this way. Additional working capital, required for seasonal or other unusual requirements, may be borrowed, the chief source being suppliers' trade credit and loans from the chartered banks.

Financing Safely

Once you have applied for and accepted a loan, you place yourself under the obligation of making interest payments during its term and of repaying the principal at maturity. Because these payments must be made whether your operations are profitable or not, and because the amounts payable do not vary with your sales volume, these payments belong to the category of fixed costs.

As compared with the fixity of such costs there is the likelihood that your sales revenue will fluctuate from month to month, and from year to year. You want to be sure that even in those periods during which your sales revenues fall to their lowest levels, you will be able to make your interest and principal payments in addition to meeting all the other expenses of operating your firm. This means that you must keep your borrowing in check and relate it closely to the needs or characteristics of your business.

Another safety rule is to relate the term of the loan to the useful life of whatever it is used to finance. If you buy inventory (stocks of goods) which will be sold in three months, equipment which will last for ten years, or a building which will need replacement in twenty years, then any borrowing you do should be related to these time-periods. For instance, any loan which you use for purchasing the above-mentioned inventory should not be for a term of more than three months. Furthermore, the inventory must produce sufficient profit within the three-month period to more than cover the interest charges. Similarly, the above-mentioned equipment should have produced

enough money within the ten-year period to cover the interest charges and principal repayment of the loan used to purchase it. It would be a serious error to use a ten-year loan to purchase equipment which wears out in five. If the building is going to wear out in twenty years, the mortgage on it should not run for more than twenty years.

Before borrowing, you should compare the terms quoted to you by all the available sources of credit. Compare not only the interest rates, but also any minimum balances, collateral, mortgages, investigation charges, etc., required by each. Accept the loan which provides the type of accommodation best suited to your needs at the lowest cost.

In comparing costs, reduce each to a percentage per year. There are many different ways of quoting interest, and the picture is complicated by investigation charges, minimum deposit requirements, service charges, etc. The way to make all costs comparable is to reduce them to a percentage per year on the average available unpaid balance.

For example, suppose you obtain a loan of $1,200 for twelve months, with interest at the rate of five per cent deducted in advance, and with the requirement that you repay the loan in $100 monthly instalments. The interest deduction is 5/100 of $1,200, or $60.00. During the term of the loan, you have the use of the following sums of money:

1st	month	$1,140
2nd	"	1,040
3rd	"	940
4th	"	840
5th	"	740
6th	"	640
7th	"	540
8th	"	440
9th	"	340
10th	"	240
11th	"	140
12th	"	40
		$7,080

Divide by 12, and you find you have the use of a monthly average balance of \$590. You are paying \$60 for the use of \$590, or 9·8 per cent per year.

Or, suppose you borrow \$1000 at a rate of 6 per cent, and are required to maintain a minimum deposit balance of \$200 and repay principal and interest at the end of twelve months. The interest payment is \$60. Since you have the use of only \$800, the effective interest rate is 7·5 per cent per year.

You should be careful to notice what you are paying for trade credit. The cost of credit extended to you by your suppliers does not appear in your accounts, but it exists nevertheless. Suppose your supplier's terms are 3 per cent, 10 days, net 30 days. That is, if you pay the bill within 10 days, you get a 3 per cent discount, but if you pay the bill after ten days, you pay the full amount. This means that for twenty days extra credit you are paying 3 per cent, or 365/20 x 3/1 = 54·75 per cent per year. Credit which is as costly as that should be reduced to an absolute minimum.

Of the two types of capital tied up in a business, ownership capital and creditor capital, the former should generally be substantially larger. Owner's funds are provided without obligation, whereas creditors' funds always involve payments of specific sums of money on specific dates. Greater safety, freedom, and flexibility result from relying mainly on your own funds to finance your business. Even short-term credit should be used for carrying only your peak working capital requirements. You should rely on equity capital to take care of your normal short-term needs.

Flexibility is also a desirable feature of your financial structure. The terms on which you borrow should not be so rigid as to hamper you in the management of your enterprise. You should try to keep such things as date of repayment and security required by your creditor as flexible as possible. For instance, if you can repay a loan before the date on which it is due, you may be able to clear off the debt in a period of prosperity, leaving your firm unburdened in case business conditions deteriorate. Moreover, the fact that a loan is repaid somewhat

before maturity tends to add to your standing with credit-granting sources. Businessmen who are in a position to grant credit are quick to note unfailing reliability on the part of borrowers in meeting or even going beyond the term of their loans.

The Credit-Worthy Business

Before dealing with the detailed features of the various types of loan, it will be useful to indicate briefly the characteristics which financial institutions look for in prospective borrowers. Firstly, the firm's sales volume must be such as to yield an adequate margin over costs, including taxes. In other words, the demand for the firm's product or service must be steady and large enough to assure profitable operation and prompt repayment. Secondly, there must be a sufficient amount of ownership capital invested to provide a margin of safety for the loan. A large equity capital helps to ensure, although it does not guarantee, that earnings will be larger than interest charges. Thirdly, the system of records and accounts which the firm keeps must be accurate and adequate to show the exact condition of the business.

The Chartered Banks

The nine chartered banks of Canada are the primary source of short-term loans. The banks' function in the lending field is to make working capital loans to businessmen for purchasing inventory, carrying accounts receivable, and meeting payrolls and other expenses. In recent years the banks have moved into the intermediate credit field, in part by granting term loans for periods exceeding one year, and in part by buying bonds and debentures. The chartered banks seldom make long-term business loans (i.e. loans with a term of more than five years), are prohibited by law for making loans on the security of real estate (except in the case of residential mortgages insured by a Government agency), and enter the long-term credit field only to the extent that they purchase securities for their investment portfolios.

Short-Term Loans.—The requirements which a business firm must meet in order to qualify for a short-term loan vary with the type, size, and condition of the firm.

A bank always requires that the borrower be a satisfactory moral risk. This is especially important in the case of a small business, in which the success of the firm is so dependent upon the character and reliability of the proprietor(s). A bank does not want to have to police a loan, or seize and sell the firm's assets in order to secure repayment. Therefore, the bank lends only to those in whose integrity it has confidence.

A bank also requires that the borrowing firm be financially sound and it places a great deal of emphasis on management ability. Your business prospects must indicate that you will have no trouble in repaying the loan. A study will be made of your past business record, including the efficiency of the various departments of your business, the care with which you watch your operating expenses, and the extent to which you have withdrawn profits for personal use thus reducing the funds available for carrying on the business. The banker will analyze your business with the object of determining how the loan will increase your firm's income.

Unless a borrower's financial position is reasonably strong the bank will look at the relationship between the amount of the loan and the material available as collateral. If the loan is to be secured upon your accounts receivable, the bank may examine the credit rating of your debtors. The bank may also be interested in the distribution of your receivables. If the loan is to be secured on inventory, the bank will have preferences as to the type of goods and the way in which they are stored. The bank prefers inventory which is marketable and safe.

The usual type of short-term loan is a demand loan made under a line of credit arrangement. A demand loan is one on which the bank can demand repayment at any time. A line of credit is an arrangement whereby the borrower is allowed to borrow up to a certain maximum amount for a certain period of time, say one to twelve months. One advantage of a demand loan is that the amount outstanding need never exceed the actual requirements of the borrower since he can reduce the amount of the loan outstanding at any time that he has surplus cash. The bank however, may demand repayment of the loan if it believes the borrower's financial position has become pre-

carious or if he has violated some provision of the loan agreement. When repayment of a loan is completed satisfactorily, a renewal credit can usually be arranged without difficulty.

Other types of short-term loans can be obtained from a chartered bank—loans on which repayment may be made in one final payment at the end of the credit period, or in instalments during the term of the loan. In the latter case, the repayment schedule may be rigid or flexible, depending on the bank's confidence in the business, the collateral provided, the amount of equity capital invested and the profitability expected.

The amount of short-term money which should be borrowed will depend upon the amount of equity capital committed and the profitability foreseen, but the upper limit is set by the maximum which can be handled in demand form. As mentioned above, you would be wise to confine your short-term borrowing to your peak requirements for working capital.

The rates on short-term loans vary from four and one-half to six per cent per year, the latter being the upper limit set by law. Trade bills are often handled by discounting, i.e. the interest is deducted in advance when the bank receives the bill you have drawn on your debtor. Many loans, however, are on an interest basis, i.e. the interest is paid at maturity when the principal is repaid.

Term-Loans.—Under normal economic conditions chartered banks make term loans, but unless the circumstances are exceptional, the term seldom exceeds five years. Term loans are for the purpose of investment in fixed assets, and may be granted for any one or more of the following purposes: buying special or additional machinery, re-arranging a firm's finances, expansion, or acquisition of other business firms. The primary source of repayment is retained earnings. The collateral which is suitable for securing working capital loans is also suitable for securing term loans. Also eligible as collateral are: bonds and debentures secured by a specific mortgage or lien on fixed assets and a floating charge on current and all other assets, and debentures secured by a first floating charge on fixed, current, and all other assets with an agreement that the borrower will not give a specific mortgage or lien on fixed assets without the bank's

consent. The rates on term loans differ only slightly from those on short-term loans. Because of the greater risk attached to such loans, the bank will usually insist upon placing certain restrictions upon the operations of your business in order to safeguard its loan.

Industrial Development Bank

The Industrial Development Bank was established in 1944 by Act of Parliament. The Bank's purpose is to supplement not to compete with other lenders, by providing financing, usually on a medium or long-term basis, to sound industrial enterprises which are unable to obtain their requirements for capital financing from other sources on reasonable terms and conditions. In this connection, the bank gives particular consideration to the financing of small business firms. While loans secured by mortgage on plant and equipment have been the most common form of credit extended, the Industrial Development Bank is empowered also to share in or guarantee loans made by chartered banks and to underwrite or purchase securities issued by a borrower. However, the underwriting or purchasing of securities has been undertaken only in exceptional cases.

Under the Act of Incorporation, the Bank may advance financial accommodation only to those business firms which come within the category of an "industrial enterprise". "Industrial enterprise" in this context means: (1) manufacturing, processing, assembling, installing, overhauling, reconditioning, altering, repairing, cleaning, packaging, transporting or warehousing of goods, (2) logging, operating a mine or quarry, drilling, construction, engineering, technical surveys or scientific research, (3) generating or distributing electricity or operating a commercial air service, or the transportation of persons, or, (4) supplying premises, machinery or equipment for any business mentioned in (1), (2) or (3) under a lease, contract or other arrangement whereby title to the premises, machinery or equipment is retained by the supplier.

Because the Industrial Development Bank rarely provides the major part of the capital required to start a new enterprise, there must be provision for a reasonable investment of capital

in the business, either by yourself or by others such as shareholders. Ability to repay a loan from earnings and other sources, and the value of buildings, machinery, and equipment available as security are given serious consideration by the Bank in arriving at its decision.

The Bank can take any form of security including liens on goods, wares, and merchandise, but the basic security usually consists of mortgages on land and buildings. Chattel mortgages on machinery and equipment are frequently included where this is legally possible. In the Province of Quebec, where chattel mortgages as such cannot legally be taken, security by means of a mortgage bond issue may be taken instead, provided the borrower is an incorporated company.

Before you make a formal application for a loan, and provided either the size of the loan or your nearness to an Industrial Development Bank branch make it feasible, it is a good idea to make an appointment with the closest office of the Bank to discuss your needs with a Credit Officer, taking financial statements for previous years with you. Preliminary discussion of this sort will indicate whether your proposal can be considered further. After a formal application has been made, your plant will be inspected by officers of the Bank as part of their inquiry into your business, its soundness and prospects. If the loan is granted, the Bank will write you outlining the terms and conditions and requesting your written acceptance. If you accept a loan and then do not use it, you must pay a commitment fee at the rate of one per cent per year, for the period from the date of your acceptance to the date on which you give notification of cancellation, a minimum period of three months being charged. When the loan is authorized, the Bank may make it a condition that you will obtain the Bank's consent, before making any unusual cash withdrawals or expenditures for executives' salaries, dividends, capital expenditures and so on. However, the Bank gives consent readily to reasonable increases in payments of this kind, as long as they do not weaken your firm's financial position or its ability to repay the loan within the agreed time.

Several weeks will elapse between the time you get the loan and the time when you are permitted to take up the funds made available under the credit. The exact length of time

depends upon the amount of work involved in the preparation of the legal documents necessary for the type of mortgage security usually taken by the Bank. In contrast to the taking of security by a commercial bank, mortgage security inevitably requires more time to prepare; and in order to expedite such matters the Bank's own lawyers keep in close touch with both the borrower and the law firm which is acting for the Bank. In line with normal term lending practice, the costs of this legal work are paid by your firm. While the security is being prepared, the Bank's insurance department will review with you the assignment to the Bank of adequate insurance on your fixed assets and will, if requested, offer suggestions as to the kind and amount of insurance appropriate for your firm's needs.

The rate of interest which your firm will pay at the present time, is six per cent per year; it is simple interest calculated only on the outstanding daily balance of the loan.

Repayment of principal and interest is arranged on whatever basis appears most suitable for your type of business, for example, monthly, quarterly or semi-annually. The Bank may also specify that in the repayment schedule there shall be included part of the retainable funds (net profits plus depreciation earned), or net working capital above a certain amount. In such cases, the amounts shall be paid to the Bank in addition to the regular schedule. These extra payments are applied on the last maturing instalments in order to shorten the period of the loan.

Provincial Lending Agencies

An alternative source of borrowed funds for enterprises not in a position to borrow through normal channels is provided by certain of the provincial governments. As in the case of the Industrial Development Bank, these public agencies supplement rather than compete with the activities of chartered banks and other lending organizations.

Two forms of assistance are available from the Government of the Province of Alberta. Treasury branches were established under the Treasury Department Act and began operations in 1938. Their function is almost identical with that of any chartered bank and its branches. Secondly, a form of inventory

assistance is provided by Alberta's Provincial Marketing Board, which was set up under the Alberta Marketing Act. The Marketing Board is empowered to make large scale purchases of various materials, to be in turn sold to manufacturers as required. The practice has two advantages: first, it makes available the benefits of large scale purchasing; second, by making use of this service, the manufacturer avoids tying up too much of his working capital in raw materials. The Marketing Board requires a certain percentage of the total value, usually ten to fifteen per cent, to be deposited with the Board, and maintains control of the inventory at all times, until the contract of purchase has been completed. A two per cent brokerage fee is charged.

In the Province of New Brunswick, under the Assistance to Industry Act, certain loans have been granted to selected industries when the economy of an area might thereby be improved or a new process might be introduced, and capital is not available from some normal sources. These loans are carefully selected so as not to affect existing capital investment or in any way interfere with free enterprise. Such financial assistance is granted to industry only at the discretion of the Government and then only if the Government feels that such assistance will promote the development of natual resources in the province.

The Province of Newfoundland has been actively assisting new industries to establish and existing industries to expand in an effort to develop the natural resources of the province. Where it is in the interest of the people of Newfoundland, the province has extended financial aid to new industrial projects, with particular emphasis on those which process the products of her forests, mines and fisheries. Assistance to industry in Newfoundland may be provided by guaranteeing bank loans or by guaranteeing the bond issues of applicant companies. The term of the loan is usually ten years, with the interest rate four and one-half to five per cent. The government-guaranteed loan usually approximates the investment made by the owner of the company and is secured by a first mortgage on the assets of the company. In addition, the Newfoundland Government has three special lending agencies, the Co-operative Development Loan Board, the Fisheries Development Loan Board, and

the Industrial Development Loan Board. Loans made by these boards have usually been advanced to firms engaged in the fresh fishing and mining industries and to assist co-operative groups in establishing enterprises such as freezing plants.

The Province of Nova Scotia has enacted the Industrial Loan Act, under the provisions of which loans can be made directly to industry, or be guaranteed, from such funds as are from time to time appropriated by the government as an Industrial Assistance Fund. For the purpose of the Act, the word "industry" refers to any type of activity in which raw or other materials are processed into substantially altered products, or a type of activity basic to the development of other industries. The word does not include the following types of activity: logging, primary saw-milling, agriculture, pasteurizing or buttermaking, mining, quarrying, construction, transportation, communication, publishing, broadcasting, the generation and distribution of electric energy, retail or wholesale trade, or the provision of personal services other than by hotels. Such loans or guarantees of loans may be used for the purpose of acquiring land, buildings, machinery or equipment to be used in establishing and developing industries within the province. However, the capital invested or to be invested in the enterprise by the borrower must at least approximate the amount of the proposed loan. These loans are repayable in regular instalments over a period not substantially in excess of ten years. They are subject to a low rate of interest.

The Province of Prince Edward Island provides financial assistance in the establishment of industrial plants for the purpose of processing agricultural, horticultural and fishery products within the province. Grants, direct loans, loan guarantee, or a combination of the three may be followed in financing the erection or extension of plant facilities for such purposes. Assistance does not exceed fifty per cent of the cost of any such plant or extension. Loans are made for a period not exceeding twenty years and are subject to a low rate of interest.

The Province of Quebec provides financial assistance to industrial enterprises only when it is reasonably apparent that the funds cannot be obtained without serious detriment from

private sources, commercial banks or other financial institutions. Applications for financial assistance are considered only from those existing or potential industries that are deemed capable of developing the provincial economy.

The Province of Saskatchewan has also established an Industrial Development Fund offering financial assistance to new enterprises establishing in the province. This assistance may take the form of loans, or guarantees of loans secured from other sources. The Fund grants loans to any co-operative association or other body of a co-operative nature, person, firm, corporation or municipality, carrying on or proposing to carry on in the province, any manufacturing, processing, industrial, financial or commercial business. The Committee operating the Fund considers each application for assistance on its own merits. Loans are generally made for periods of five years at five and one-half per cent interest for amounts up to approximately fifty per cent of fixed assets.

In seeking information on the operations of the various Funds mentioned above, you should make contact with the respective Industrial Development Office as listed on page 137. While not directly concerned with the administration in most cases, the Industrial Development Office usually acts in an advisory capacity and will be brought into the picture sooner or later when your application comes under review.

Trust, Mortgage and Insurance Companies

Trust, mortgage and insurance companies make long-term loans secured by mortgages on buildings and land. Since most mortgage loans are granted on residential property, these institutions are not of primary interest to the small businessman.

However, it may be useful to know that insofar as these companies do make mortgage loans to business, they are interested in property that has a variety of uses. They prefer not to lend where the premises are highly specialized and therefore not adaptable to the needs of different businesses. The preferred type of building is one adaptable to any type of merchandising and located in a busy shopping district. The lending company wants to be sure that it can easily sell the property in case the loan is not repaid.

The amount which you can borrow will depend upon the value of the property, but the lending company will probably not lend more than forty-five to sixty per cent of the property's normal value, depending on circumstances. The interest rate on such loans is five to six per cent per year. The term of the loan can vary widely, and may be for a period as long as twenty years.

Finance, Discount and Acceptance Companies

Factoring Companies or Factors specialize in buying outright the accounts receivable of their clients. The client concerned, such as a textile manufacturer, usually relies on his factor's advice as to the trade credit he should extend. Then he sells all his accounts receivable to the factor without recourse; that is, the factor agrees to take any losses on the receivables he has purchased.

Factoring companies serve those manufacturers and wholesalers that are engaged in the production and selling of items in which there is a continuing or repeat business, such as shoes, textiles, home furnishings and so on. They usually advance funds on a short-term basis and expect to convert the purchased receivables into cash within thirty to sixty days.

Factor charges include a rate of interest and usually a fee or commission. The fee or commission is designed to remunerate the factor for advising his client on the selection of risks as well as for collecting the receivables when they are due.

Another source of short-term loans is made up of concerns variously known as Commercial Credit, Discount, Acceptance or Instalment Finance companies. Such companies differ from factors in that they do not buy receivables and usually do not furnish collection service or management advice. They lend money on the security of accounts or notes receivable in much the same way as commercial banks do. They also make loans secured by warehouse receipts as well as loans to finance certain types of equipment which may be used as security for the loans.

Commercial Credit, Discount, Acceptance, or Instalment Finance companies deal with manufacturers, wholesalers and dealers. They do not deal directly with consumers. If durable

goods are sold on a time payment basis, the party making the sale can discount the contract with one of the aforementioned companies.

Small Loans Companies

In respect of loans up to and including five hundred dollars, Small Loans Companies and Money-Lenders are subject to the regulatory provisions of the Small Loans Act, a Statute of the Parliament of Canada. The Act permits the lending of money, usually on the security of chattel mortgages or promissory notes, without a licence, providing the lender does not exceed five per cent per annum in his charges. With a licence under the Act, the lender is permitted to charge a rate up to a maximum of two per cent per month, including all charges.

These companies do make loans over five hundred dollars and purchase instalment paper arising out of sales on time, but in activities of this nature they are not subject to the provisions of the Small Loans Act. The business of these lending firms is primarily that of lending to consumers for personal needs, but they do, as a secondary feature, make loans for business purposes.

Credit Unions

If you are a member of a credit union, you may be able to borrow from it for business purposes. The usual security for such loans is a mortgage on buildings and equipment, the interest charge is about eight per cent on the unpaid balance, and the term is usually for less than five years.

Chapter VIII

BUYING AND SELLING ON CREDIT

The use of credit has grown enormously in importance in the postwar years. In some lines of goods, such as household furniture, expensive appliances, and autos, instalment buying has become very widespread, while in the operations of stores selling other lines of goods, cash and carry is the main feature. In the type of business you are entering there may be no choice about your selling on credit: customers' habits and competition may determine the matter for you.

If you go into a credit business either through choice or necessity, a well thought out credit policy is essential. If used properly, credit can build up your sales volume and profits but, if uncontrolled, can lead to insolvency and failure.

Buying on Credit

Credit granted by suppliers can be an aid in financing inventory. But, as pointed out in Chapter VII, trade credit is very expensive and its use should be studied very carefully. If you use trade credit, be sure that its cost is justified and that you can meet the terms laid down by your suppliers.

Above all, do not buy on credit simply because a supplier decides, for example, that you are "good" for a line of credit up to three thousand dollars. Remember that the main reason for having a stock of goods on hand is to be able to satisfy your customer's needs. If credit can be used to build inventory which will sell profitably, it will be worthwhile to buy on credit. Buying any other kind of inventory, on credit or otherwise, is a waste of money.

You might bear in mind that one way of raising money to buy inventory is to discount your accounts receivable with a collection agency or a chartered bank, as suggested on page 70.

In using trade credit, remember also that inventories are apt to be risky things. If you have purchased inventory at a given set of prices and the level of your selling prices is then forced down for any reason, your profit margin may be not only cut but may even be turned into a loss. Do not let easy trade credit betray you into building up excessive stocks of even the best-selling merchandise, for your losses may be serious.

In short, constantly keep in mind two questions when thinking about buying on credit: (1) what will this credit cost me and (2) can I meet my suppliers' terms without difficulty? Keep in mind the suggestions of Chapter VII for calculating the true cost of credit.

Selling on Credit

Advantages and Disadvantages

The chief advantage of selling on credit is that it increases your sales. If you are in certain lines of business, your volume may be very low unless you go into the instalment sales field.

But selling on credit has the disadvantage that it adds to cost. This added cost has a threefold aspect.

Firstly, when you sell to a customer on credit, you are actually making him a loan. If your credit sales are substantial, these "loans" will tie up a sizable sum of your money. Hence more capital is required for a credit business than for a cash business, and capital costs money.

Secondly, there are bad debts to reckon with. There will be times when you cannot collect your money from all your customers. Naturally, you will try to cut your losses from bad debts to a minimum, but there will be some losses and these constitute a cost which does not exist in a cash business.

Thirdly, customers' accounts must be supervised. There is considerable work in taking credit applications, keeping accounts, sending out statements, and following up delinquent accounts. There may be additional expense in buying the necessary files, typewriters, accounting machines, and credit reports on customers from a credit reporting agency. If your credit business grows large enough, you may even need one or more employees working exclusively on credit accounts.

Types of Credit Sale

Credit sales in the retail field comprise two types of operation: selling on open or "charge" account, and instalment sales. The latter may be known as time-payment plan, budget plan, deferred payment plan, easy terms plan, convenient payment plan, or easy payment plan.

A credit sale is a profitable sale only when you have collected the last dollar owing to you. Hence the importance of selling on credit only to reliable customers, and of knowing how to deal with them if they become slow in meeting their obligations.

General Principles

1. *Know Your Customers.*—The most important guide in selling on credit is a knowledge of your customers, their means, and their legitimate needs. Sales on credit should be allowed only for real needs and not for luxury items or passing fancies which customers cannot afford.

Allowing a customer to buy on credit as a method of escaping from the limitations of an inadequate income ultimately means trouble for both you and your customer. Experience and common sense are your principal guides as to whether credit is justified.

Investigate thoroughly every new customer who wishes to open a charge or instalment account before you extend the credit privilege. All large cities and some smaller ones support credit-rating bureaux. These bureaux accumulate the experience of credit-granting merchants, professional people, and banks, as well as information from newspapers, court records, and public records. On the basis of such information a person or firm is given a credit-rating. If there is a credit bureau in your town, submit to it all application forms of new accounts and get reports on the credit-rating of all new customers. As well, it is wise to register your old accounts with the bureau. Credit bureaux can investigate new customers much more throughly than can an individual merchant.

When considering credit sales to firms rather than to individual consumers, rather different methods apply. The firm asking for credit should be in sound financial condition,

have its accounts receivable in the proper proportion to its other assets, and have reliable management. To learn about the soundness of a firm, consult either a credit bureau or other suppliers who have had dealings with the firm.

2. *Explain Your Credit Terms Clearly.*—You can save yourself trouble if you explain to each new credit customer the exact terms on which you extend the credit privilege. This means, of course, that you must have a clear idea in your own mind of just what your credit policy is. Decide how much and for what period you will allow any customer to buy on credit. Make it clear when you expect payment in full.

It has been found by many merchants to be good policy, when dealing with open-account or "charge" business, to grant credit only from one payday to the next. While this sort of arrangement may not be suitable to your business, it is wise to insist on payments at regular intervals. Make it clear that if you are not paid regularly, the customer's credit privilege will end immediately. Come to an understanding with the customer as to just how much credit he can have. This will help to prevent his overbuying and getting into the slow payment habit which accompanies it. Write the credit period and credit limit on each individual customer's account as a reminder to yourself.

3. *Follow-up And Collect Promptly.*—Your credit policy will fail unless a sound collection plan is also adopted. Statements should be prepared and sent to customers with credit terms of a month. (For those on weekly or bi-weekly credit terms, statements are not usually necessary unless such customers are becoming lax about payments). Then, when the statements do not bring in payment, follow-up the account promptly and consistently. This follow-up may take the form of a telephone call, a personal interview, or the mailing of printed reminders. Keep after the customer at regular intervals or temporarily suspend his credit privilege.

Quick follow-up and insistence on prompt payment from the very first will pay dividends. Customers are usually better able to pay when their accounts are new. Quick follow-up will earn the respect of the customer for your business-like attitude. If no favouritism is shown in the matter of collections,

and if collections are prompt, customers will know they are not having to pay in the form of higher prices for losses due to bad debts caused by others.

4. *Suspend Slow-Paying Accounts.*—Promptly suspending delinquent accounts from further credit privilege is the core of a sound credit policy. It educates the slow payer to pay promptly. It eliminates the practice of treating each account individually, speeds up collections, and increases sales receipts.

Temporary suspension of credit privileges do not automatically cut off further credit at once. But it does so if: (1) the customer refuses to pay; or (2) he refuses to make a definite arrangement to pay by a given date.

Suspension should also be applied to "creepers"—those who make partial payments on account but whose total indebtedness is always increasing.

5. *Advise Delinquents About Paying.*—In collecting, help delinquents. Give your debtor a definite plan which will enable him to clear off his indebtedness in a reasonable length of time. It might be still more helpful to suggest a few alternative plans for his consideration. Tell him the real reasons why you want prompt payment: it cuts your costs and bad-debt losses, enables you to work on smaller capital, thus reducing your borrowing and interest on loans and enabling you to charge lower prices. Above all, do not give the impression that you question your customer's honesty.

6. *Other Aspects of Collection.*—The whole matter of collecting is one requiring tact and common sense. The proper approach depends upon the customer and how seriously he is in debt. The foregoing sections have suggested methods of dealing with delinquent accounts, and these methods may be all that are necessary in a large number of cases. In the case of stubborn persons able but unwilling to pay, you may have to resort to the services of a bill collector or even to court action. Suit the method to the person and circumstances, but at all times be firm and decisive.

One way of disposing of your collection problem entirely is to sell your accounts receivable to a collection agency. A collection agency buys an account receivable for its face value

less a charge for collection and less an allowance for bad debts. In other words, the agency "discounts" your accounts receivable. As the agency is the owner of the account and collects it, you have nothing further to do.

7. *Analyze Your Accounts and Maintain an Overall Check.*—We have said before that the amount of credit you can extend will be limited by your capital. You must frequently check the amount of credit you have outstanding and compare it with the limit you have set for your business.

One question to which you need an answer is, "How much can my business stand in slow accounts?" Here are a few methods of arriving at an answer to this problem.

(*a*) Compare your charge sales with your collections—If your charge sales during a credit period amount to more than your collections, it means either that your charge business is expanding or that your collections are poor. If the excess of credit sales over collections occurs a second period in succession, you are in danger. If you allow this situation to persist you are risking business failure.

(*b*) Compare your charge sales with the amount owed by customers—The total amount owed at the end of a credit period should be about equal to one credit period's charge sales.

(*c*) "Age" your accounts receivable—That is, go through them and arrange them in groups which are one to nine days old, ten to nineteen days old, twenty to twenty-nine days old, etc. Compare the results with your terms of credit and thus discover which of your customers are being unusually slow in paying up.

(*d*) Compare the average length of time it takes you to collect an account with the average length of time required by other firms in the same line of business. Statistics on this matter can be obtained from Dun and Bradstreet.

(*e*) Relate the terms of your credit sales to the terms of your credit purchases. If your suppliers demand payment in thirty days, your customers should either pay cash or pay up their accounts within thirty days.

A Final Word

Remember that when you sell goods costing one hundred dollars, these goods must be replaced. If you sell for cash, you immediately have the funds to replace the goods. If you sell on credit, the funds must come either from your capital or be borrowed from someone else. If you have no extra capital or if no one will give you a loan or trade credit, you cannot replace your goods and you will lose trade because of an inadequate or out-of-date stock of goods. So this matter of collections and credit control is vitally important to the success of your enterprise.

The foregoing has not been intended to scare you out of selling on credit. Rather, it has been designed to help you build a successful and well-controlled credit business. A sound credit policy can help you enormously in building a prosperous enterprise. Needless to say, to be successful your credit policy must be integrated with your general store policy. So bear in mind the general considerations given in Chapter V on "Retail Store Policies".

Chapter IX

INSURANCE IN BUSINESS

Function

Ask yourself what you would do if either of the following events occurred on your premises.

An elderly lady, entering your grocery store, trips on the handle of a mislaid broom, falls, breaks an arm, and sues you for five thousand dollars.

A burglar smashes your jewellery store window during the night and makes off with two thousand dollars in watches.

You can see that either of these events could cause you very serious financial loss or even ruin your business completely. The purpose of insurance is to guard against just such losses as these. The premiums to be paid on an insurance policy are small in comparison with the value of the assets protected. To run a business without insurance of any kind is a very hazardous undertaking. This is so widely recognized that there are circumstances in which insurance is required, for instance, when a lender makes you a mortgage loan.

As insurance is a very complex subject, this chapter will try only to make you aware of the various types available and the chief features of each type. You should seek the advice of a reputable insurance agent on the insurance needs of your particular business.

Insurance for Protection of Property

The loss or destruction of a large investment in a building, equipment, and merchandise could put you out of business completely. So it is worth while to pay the relatively small premiums required to take care of the risk of a much larger loss. There are many types of policy, some common forms of which are as follows.

Fire.—Originally a fire policy covered only fire and lightning. But there has been a continuing broadening of the coverage and by endorsement, many other coverages can now be obtained. These include explosion, collapse or landslide, falling objects, glass breakage, impact by aircraft or vehicles, malicious damage, riot, rupture or freezing of steam or hotwater heating systems, plumbing and air-conditioning systems, smoke, water, windstorm and hail.

Business Interruption Insurance.—This type of insurance covers you when your operations cease due to fire or other property damage. If your business stops because of fire, your earnings cease but your fixed expenses such as interest and taxes go on. Business interruption insurance provides for continuing expenses and loss of profits.

Floater Insurance.—Floater or inland marine insurance covers losses on movable property. A floater policy may cover a wide range of hazards or be narrowed to specified risks. A comprehensive type is the personal property floater. Specific types can be had to cover cameras, furs, jewellery, etc.

Casualty Insurance

This type of insurance protects against financial loss arising out of injury to persons, or damage, loss, or destruction of property caused by negligent, fraudulent, or criminal acts.

Injury to Employees.—If one of your employees is injured due to carelessness on your part, then by law he is entitled to compensation for the injury. Workmen's compensation may be compulsory in your province. If not, an insurance company will protect you against liability for injury to your employees while engaged in their duties.

Public Liability Insurance.—Everyone is responsible for injury or damage to persons or property of others due to his negligence. The term "public liability insurance" includes all types of insurance which provide protection against damage claims, except two main categories: claims by employees, and claims arising out of the use of autos. Public liability insurance is usually considered in two parts: (1) bodily injury, covering

claims for accidental death or injury of persons (except employees); (2) property damage, which covers accidental injury to property of others which is not being used by the insured person or in his care.

A policy may be arranged to cover all liability risks in connection with a business, subject to a few exclusions. If you do not want such a comprehensive liability policy, policies covering many specific types of risks can be obtained: These include:

Owners', landlords' and tenants' liability
Elevator public liability
Professional (malpractice) liability
Products liability
Manufacturers' and contractors' public liability
Owners' or contractors' protective public liability
Contractual liability

See a casualty insurance agent for details of any of these types of insurance.

Other Forms of Casualty Insurance

Boiler and Machinery Insurance.—This type insures you against the ruinous financial losses caused by accidental explosion or breakdown of heating and power equipment and covers many different types of installation such as boilers, pressure containers, refrigerating systems, engines, turbines, electric generators, and electric motors. The policy covers claims for bodily injury as well as property damage. An inspection service is included.

Glass Insurance.—This type insures you against loss by breakage, or damage to lettering and ornamentation. The insurance company either replaces the damaged glass or indemnifies you for the cash value of the glass at the time of the loss. As the usual procedure is to replace the broken glass, glass insurance is basically a replacement coverage. Because insurance companies are regular buyers of glass and arrange for so many replacements, they can often get installations more promptly and at lower cost than can the individual owner.

Credit Insurance.—Credit insurance protects you against abnormal and inordinate bad debt losses as distinguished from normal bad debt losses which can be allowed for in your selling prices. For example, it covers the sudden insolvency of a large and hitherto trustworthy customer. This type of policy is highly technical and must be tailored to fit the requirements of each individual business. It is not generally available to retailers.

Burglary, Robbery and Theft Insurance.—Burglary means the forcible entry of your premises. Robbery is the taking of your property by violence or threat of violence. Theft is the stealing of your property while it is unprotected. In large cities, scores or even hundreds of these crimes occur daily. Loss of money from a safe may cause business failure or serious interruption of business.

Various types of policy cover separate risks. Alternatively, you can obtain a Commercial Comprehensive Dishonesty Policy, a combination of separate policies.

Motor Vehicle Hazards

Bodily Injury and Property Damage Liability Insurance.—This type of policy covers your liability for bodily injuries and property damage caused by operation of motor vehicles owned by you whether driven by you or by others with your consent.

Collision Insurance.—This policy covers loss through damage or destruction of your vehicle by collision or upset. The cost depends on the coverage or protection purchased. Coverage may be on a "deductible" basis.

Fire and Theft Insurance.—This policy covers loss by fire and transportation hazards or by theft of the auto or parts of it.

Non-Ownership Liability Insurance.—This policy covers your liability for loss arising out of the use in your business of automobiles you do not own.

Garage Liability Insurance.—This type covers your liability for loss arising from your operations as an auto dealer, owner of a repair shop, storage garage, or service station. The policy covers not only the operation of autos, but public liability arising out of the use and maintenance of the premises.

Life Insurance in Business

Life insurance serves several functions in connection with business. These are discussed below.

1. *Key-Man Insurance.*—In many businesses, success depends on the ability of one key-man whose death causes serious financial setback until a qualified replacement is found. Making the business the beneficiary of a life insurance policy on such a key-man provides funds to attract a new man into the business, to educate and train him in order to provide a man as good as the one replaced.

2. *Partnership Insurance.*—Death of a business partner can cause withdrawal of his investment in the business. In many cases, the death of the partner dissolves the partnership and his estate may require liquidation of his share. Furthermore, the goodwill assets of the partner may be lost. Partnership insurance provides funds to aid reorganization into a new partnership or sole proprietorship.

3. *Individual Proprietorship Insurance.*—If a sole proprietor insures his own life, his family is given adequate funds to reorganize the business or maintain it till it can be sold. If a new manager is hired to run the business, the insurance can be used to make his salary worthwhile until the goodwill and productivity of the firm are re-established.

Types of Insurance

Three principal types are used: straight life insurance, term insurance, and endowment insurance.

(a) *Straight Life Insurance.*

The *ordinary life insurance* policy is intended as protection against premature death. It is a permanent type giving protection throughout life. It also has a savings function. Issued by life insurance companies in amounts of one thousand dollars or greater (usually in multiples of five hundred dollars), an ordinary life policy requires payment of an annual premium varying in amount with the age of the insured person. Such annual premiums may be adjusted to semi-annual, quarterly, or monthly payments if the policyholder so desires. Payment

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of the premium continues until the death of the insured, whereupon the company pays the principal in cash to the person or persons designated as beneficiaries.

The distinguishing feature is that the insured person pays premiums as long as he lives. This type also builds up a cash surrender value in case the insured wishes to discontinue the policy before his death. Loans from the insurance company may also be obtained, the amount of which is limited by the cash reserve which is built up by the policy.

In addition to its usefulness as family protection, this type can be used for business protection or as a support to personal credit.

The person who buys straight life insurance may elect to buy a policy which is a "participating" policy. This type of policy permits the policyholder to share or "participate" in the profits of the insurance company. Limited payment policies and endowment policies also can be had with participation features. The premiums on participating policies are higher than on non-participating policies of the same type and for the same age. It is of interest to note that most ordinary life plans can become "paid up" at 65 or at about that age if the dividends payable to the participating policyholders under such a plan are allowed to accumulate during the lifetime of the policy.

Limited payment life insurance is issued to overcome one unsatisfactory feature of ordinary life insurance. The latter type of policy requires premium payments throughout life at a flat rate. As the period when a man has an income may not extend past 60 or 65 years of age, the payment of life insurance premiums after that age might well be a heavy burden. Hence there is good reason why premiums should cease with the end of the productive period of life.

To meet this need, commercial companies issue limited payment policies. These limit the number of payments to ten, fifteen or twenty years, at the end of which period the policy is "paid up" and no further premiums are required. The insured person is fully covered until the time of his death. Premiums on this type of insurance are higher than those for ordinary life policies. The limited payment life policy, like the ordinary

life policy, builds up a cash surrender value. Loans from the insurance company may be obtained, the amount of which is limited by the cash reserve which is built up over time.

(*b*) *Term Insurance.*

A term insurance policy is issued by a company, not for the whole life of the insured person, but for a limited number of years, or term. If the insured dies at any time within the term covered by the policy, the principal is paid to the beneficiary. This type of insurance does not have a cash surrender value nor can loans be obtained from the insurance company in connection with the policy. At the end of the term of years covered by the policy, if the insured is still alive he gets nothing back. Similarly, if the policyholder terminates the policy before the term is up, he gets no money back. In other words, the principle behind term insurance is similar to that behind fire insurance, on which you would never expect a cash return or a loan.

Some companies issue term insurance policies which are renewable. That is, they can be renewed for a further term without medical examination although the premiums are higher than in the original policy. Term policies are also available which are convertible. That is to say, within a certain limited number of years they can be converted into some form of straight life insurance.

The great advantage of term insurance is that the premium is lower than on either limited payment life policies, ordinary life policies, or endowment policies taken out at the same age and for the same principal. The disadvantage is that because the term policy is in force for only a certain number of years, the policyholder needing the protection of insurance for a further period will have to get a new policy at a higher rate. The policyholder also runs the risk that he may not be insurable when his old term policy expires.

Term insurance is a useful form of protection to a young man who is establishing his business and building up his estate.

Decreasing term insurance is also given by a company for a limited number of years, but the principal for which the policyholder is insured decreases with time. That is to say, if the policy is for twenty thousand dollars, and if the policyholder

dies within the first year, his beneficiaries receive the full twenty thousand dollars. But if he died during the second year of the policy, the beneficiaries receive less than twenty thousand dollars, and if he died in the third year, still less. Towards the latter part of the life of the policy the amounts received by the beneficiaries in the event of the death of the policyholder gradually approach zero. This type of insurance gives a decreasing amount of protection in return for a stable premium.

Decreasing term insurance is useful in covering a risk which decreases through time. For example, if you have a mortgage on your business premises and pay it off gradually over a twenty year period, the unpaid amount of your mortgage debt gradually declines, until at the end of the twenty years, it equals zero. To cover this debt in the event of your death, you do not need to be insured for a fixed sum: a declining sum is all that your estate would require. Hence decreasing term insurance used to cover this type of situation is sometimes referred to as "mortgage insurance".

The great advantage of decreasing term insurance lies in the very low premium, lower than on any other type of life insurance. The chief disadvantage lies in the decreasing protection provided for the constant premium. It is, in other words, insurance which is increasingly costly as time passes. The other disadvantages are similar to those characteristic of term insurance (discussed on page 93).

(c) *Endowment Insurance.*

You will recall that the straight life insurance policy actually combines two functions, protection against premature death and a savings function. An endowment policy combines protection against premature death with an accelerated savings function. In the endowment policy, provision is made for the payment of a sum of money at the retirement of the insured person or at the end of the endowment period. The endowment policy has a cash surrender value prior to maturity and this surrender value is higher than in straight life policies. The loan value is also higher. Because the endowment policy combines a protection feature with an accelerated savings feature, the premium on it is the highest of all types of life insurance issued at the same age for the same principal.

Disability Insurance

Suppose that an important employee is disabled to the point of being completely incapable of performing his duties. This can cause severe economic loss to your business. Had the employee died, life insurance would have covered the loss. However, to cover the case of disability, accident and health insurance is available.

Fidelity and Surety Bonding

Fidelity and surety bonds are important to the businessman because they guarantee financially the reliability of human beings in business relationships. Fidelity and surety bonds differ from other types of insurance in that three, not two, parties are involved: the principal, or bonded party, who promises to fulfil certain obligations; the beneficiary, or insured person, who requires the bond; and the surety, or insuring company, which reimburses the beneficiary if the principal defaults on his promise. Some of the chief types are as follows:

Fidelity Bonds.—These protect the businessman against loss by dishonest or fraudulent acts of employees. Fidelity bonds serve to deter employees who are tempted to dishonesty, and if dishonest acts occur, enable the businessman to recover his loss.

Surety Bonds.—These guarantee the performance of an obligation or contract. If the bonded person fails to fulfil his obligation, the insurance company reimburses the beneficiary. There are several types of surety bond, a few of which are described below.

(*a*) *Bid and contract bonds* guarantee the satisfactory fulfilment of contracts such as those for constructing buildings, roads, bridges, etc., according to specifications.

(*b*) *Supply contract bonds* guarantee that goods supplied on contract will meet the terms and specifications of the contract.

(*c*) *Licence and permit bonds* are sometimes required by provincial or local governments to ensure compliance with laws or regulations governing the particular activity which is being licensed.

Insurance: General Considerations

A great many types of insurance have been described above. It is unlikely that you will need all the types listed or that you would be able to afford them all even if you needed them. As any type of insurance costs money, and as the capital of a small businessman is usually limited, choosing the types of insurance which are of greatest importance to your business is a matter requiring good judgment. The types you need will be dictated by the character of your business or by the stage to which it has developed.

For example, if you are the sole proprietor of your business and have no employees, you will not need fidelity bonds to cover employees. Similarly, if you are renting the building in which your business is located, you will not need term insurance to cover a mortgage on a building.

Careful planning of insurance is necessary to the success of a business. Adequate insurance coverage will lessen the risk of business failure, take a load of worry off your mind, and release your energy for use in other aspects of your enterprise. Consult reputable agents and put first things first in choosing the types of policy you need.

Chapter X

GOVERNMENT LAW AND REGULATION

Canadian business is subject to various types of regulation by federal, provincial and municipal governments. Since such legislation and regulation is drawn up in precise legal terms, and since it cannot be simplified without giving rise to false impressions or misinterpretation, this chapter will be more difficult to read than preceding chapters.

Some regulations affect a larger segment of the business community than others, and some aspects of government regulation are more important in their application than others. In this text it is impossible to give equal prominence to all points that may be of interest. Treatment is confined mainly to those matters of far-reaching importance. The section 'Financial Matters' is concerned with income tax, sales tax, customs duties, unemployment insurance, and workmen's compensation. The following section deals with 'Standards' and gives greater prominence to regulations in respect of building construction, food and drugs, and electrical appliances, than to grading and regulatory provisions affecting particular lines of business enterprise. 'Property Rights' concerns itself with patents, industrial designs, copyright and trade marks. The material on 'Labour Regulation' is confined to the points of most interest since labour regulation is mainly a provincial matter and there are many differences in the law between areas. The following section dealing with 'Pricing and Competition' is included as background information, since the legislation may have a bearing on the policies proposed by a businessman.

Many of the federal government organizations mentioned in this chapter have regional offices. A full listing of these is not possible, but the Industrial Development Branch of the Department of Trade and Commerce, Ottawa, will direct you to the pertinent source of information on request. Similarly, the list of provincial industrial development offices given in

Appendix A may be used for the address of a contact in each province. If your inquiry may be more properly handled elsewhere in the provincial government, the Industrial Development Office will direct you to the proper source.

Financial Matters

Federal Income Tax

Personal Income Tax

If you are the sole owner of your business and have no other sources of income, the salary and profits you earn in your business constitute your personal income and are taxable as such. In estimating the profits of your business you are allowed to deduct from the value of your net sales any expense incurred for the purpose of earning your income. You are not allowed to charge off as expenses the cost of the buildings and equipment you have purchased; rather you must write them off over the estimated life of the property. That is to say, it is only the annual depreciation on such buildings and equipment which you may deduct from your net sales to arrive at your profit figure. You must pay income tax on the profits of the business whether you actually withdraw them for your personal use or whether you leave all or any part of them invested in the business. You must keep books and records showing all your sales and expenses and produce them for the proper authorities on demand.

If you have income from other sources, the amounts you receive from these other sources are included in your personal income and you must pay tax on them as well as on the income you derive from your business. For example, you must report and pay taxes on any investment income you receive; that is, dividends on shares of stock or interest on bonds or bank deposits. In short, you must pay income tax on your income from *ALL* sources. The income from your own business firm is not subject to the surtax on investment income unless you are not actively engaged in operating your own business.

If less than three quarters of your income is derived from salary received from another person, you must estimate your income for the entire year, calculate the tax which would be payable on this estimated income, and pay this tax in quarterly

instalments in March, June, September and December. The income tax return you file on your business income does not have to be made for the calendar year. If you find some other fiscal year, for example, June 1st of one year to May 31st of the following year, more suitable to your business, you may use it as the basis for the computation of your income tax. Your income from all sources other than your business, however, must be reported on a calendar year basis. Regardless of the fiscal year you choose for your business income, however, you must file your return for each year by April 30th of the following year.

Because of the detailed accounting procedures involved, it is preferable to have a competent and experienced accountant prepare your income tax returns.

Income Tax on Partnerships

All that has been said above in connection with the individually owned enterprise applies to the partnership. Each partner is taxed on his salary and on his share of the profits of the business, regardless of whether such profits are withdrawn from the business or not. The salary and profits which a partner receives from the firm constitute his personal income and are taxed as such, there being no income tax on the partnership as such.

Corporate Income Tax

The British North America Act, which established the Dominion of Canada, gave to both the Federal and Provincial Governments the power to levy income tax on corporations. However, by agreements enacted between the Federal Government and nine Provincial Governments (Quebec is not a party to the Agreements), these nine Provinces have vacated this field of taxation. The Agreements referred to are valid until 31st December, 1956.

The Federal corporate income tax is levied on profits after expenses have been deducted and before dividends have been paid out. The return must be filed within six months of the end of a corporation's fiscal period. The tax must be paid in monthly instalments over a period starting six months before the end of the corporation's fiscal period and continuing six

months after the end of this fiscal period. The rate (1955) is 18 per cent of the profits up to $20,000 and 45 per cent on profits in excess of $20,000. In addition, all corporations are required to pay a tax of 2 per cent of taxable income under the provisions of the Old Age Security Act.

Where two or more corporations are associated with each other, only one of them is entitled to the lower rate on the first $20,000 of income, or the $20,000 may be divided amongst them by agreement.

When dividends are distributed to individual shareholders who are residents of Canada, the amounts so paid become subject to personal income tax at graduated rates and to an additional tax of 4 per cent on investment income in excess of $2,400. As a measure of relief from such double taxation, however, shareholders are entitled to a credit against the personal income tax payable on the dividend of an amount up to 20 per cent of the dividend. Such double taxation may be further alleviated under certain circumstances. A Canadian company may be able to pay a 15 per cent tax on part of its "undistributed income" (as defined in the Income Tax Act) and thereafter distribute it by way of stock dividends, upon winding up or upon reduction of capital, without the shareholders being liable to a further tax. In many such cases, a stock dividend has been issued in the form of redeemable preferred shares. The subsequent redemption of such shares does not render the shareholders liable to personal income tax on the amount received.

Income Tax on Co-operatives

Newly organized co-operatives are exempt from taxation for the first three years of their existence provided that they comply with certain requirements which are designed to ensure their being genuine co-operatives. For old co-operatives the regulations are similar to those of other corporations.

In order to arrive at the figure for taxable income, co-operatives and other corporations may deduct from their earnings the amount of patronage dividends paid out. (Since only co-operatives make a practice of paying patronage dividends, this provision in practice will affect co-operatives only).

There are two limits on the total amount of patronage dividends which may be deducted for income tax purposes. Firstly, the co-operative may not deduct more than the proportion of its income which has been earned from the business it has done with its members, plus all patronage dividends paid to non-members. Secondly, the co-operative may not, by the payment of patronage dividends, reduce its income below three per cent of the capital employed.

Deductions at the Source: Employees' Income Tax

All employers are responsible for the deduction of income tax from the pay cheques of their employees. You can obtain information on returns, exemptions, and procedure generally, from your nearest District Taxation Office.

Provincial Income Tax

The Province of Quebec is the only province levying either a personal income tax or a corporate income tax.

Residents of the Province of Quebec are liable to provincial personal income tax on their income from all sources; non-residents of the province who are employed or carrying on business in the province are liable for tax on that portion of their income earned in the province.

The Quebec Act is closely patterned after the Federal Income Tax Act, but differs particularly in that deductions are not allowed for dividends received from taxable Canadian corporations or for taxes paid to foreign jurisdictions. The Federal Income Tax Act provides for a credit against federal tax of an amount, in respect of personal income tax paid to the Province of Quebec, equal to 10 per cent of the federal tax payable.

With only a few exceptions, every corporation that maintains a permanent establishment, or carries on business in the Province of Quebec, is liable to provincial income tax at the rate of 7 per cent of taxable income attributable to operations in the province. Taxable income is determined along the lines followed in arriving at federal taxable income, with the exception that the Province of Quebec does not allow losses of previous

or subsequent years as a deduction from taxable income. Seven per cent of a corporation's taxable income earned in the year in the Province of Quebec may be deducted from the tax otherwise payable when filing a return for federal income tax purposes.

Information on Quebec rates, returns, etc., can be obtained from a district taxation office, Revenue Branch, Department of Finance, Province of Quebec.

Sales and Excise Taxes

Federal Sales Tax

> NOTE: The following information on sales and excise taxes describes the situation as of May 16, 1955. Because the rates and schedules of taxable goods and exemptions may change from time to time, readers are advised to watch carefully for announcements of any changes. Information on any such changes may be obtained from the address given on page 105.

By authority of the Excise Tax Act as administered by the Department of National Revenue, a sales tax of ten per cent is imposed on the sale price of all goods manufactured or produced in Canada and on the Customs duty paid value of all goods imported into Canada except certain goods which are exempted by the Statute from the application of the tax. These goods include purchases by provincial governments, goods exported from Canada and goods listed in Schedule III of the Excise Tax Act. On goods manufactured or produced in Canada, the tax is applicable at the time the goods are delivered by the manufacturer or producer to a purchaser; on goods imported, the tax is applicable at the time of entry for consumption in Canada.

The list of items exempt from sales tax includes practically all foodstuffs, the principal building materials, all machinery and apparatus used directly in the manufacture or production of goods, and implements used in the primary industries of fishing, farming, mining, lumbering, and oil production. In addition, the Minister of National Revenue may exempt from payment of sales tax any class of small manufacturer selling his product exclusively by retail.

Generally speaking, the tax applies once only—on the sales by the final manufacturer. Manufacturers or producers are permitted to purchase articles and materials, i.e. partly manufactured goods, free of sales tax, if they are to become part of the taxable article being manufactured or produced. The sales tax then applies on the sale price of the completely manufactured article. For example, a licensed abattoir producing hides is permitted to sell them free of sales tax to a licensed tanner, the tanner after tanning them is permitted to sell the leather free of sales tax to a licensed shoe manufacturer; the shoe manufacturer accounts for and remits the sales tax at the rate of ten per cent on the sale of the finished shoes.

If you are a manufacturer or producer of goods subject to sales tax, you are required to obtain a sales tax licence and must quote your licence number in order to purchase or import components or materials on a tax-free basis. The annual fee for the licence is two dollars.

There may be some occasions where the final manufacturer is not required to pay the tax as it is paid by a subsequent party, for example, he may sell to a wholesaler who has been granted a wholesaler's sales tax licence under the provisions of the Excise Tax Act. The basic principle in paying sales tax is that the amount becomes payable at the time of delivery or passing of title to the first party who is not entitled to exemption in the chain of production and distribution. In some cases, wholesalers and jobbers are granted a wholesaler's sales tax licence which permits them to purchase or import goods without payment of sales tax until they sell the goods. However, in order to obtain a licence, they must comply with certain conditions regarding their volume of tax-exempt sales and furnish security as required by the Excise Tax Act. A wholesaler's sales tax licence fee is the same as a manufacturer's fee, two dollars, and must be renewed annually in a similar manner. Where goods are purchased by a licensed wholesaler, sales tax free, at time of purchase or importation, he then becomes liable for payment of the tax when he, in turn, sells the goods to the next person in the chain of distribution unless his sale is under tax-exempt conditions.

As a licensed manufacturer or producer, wholesaler or jobber, you must remit the amount of your sales tax by way of a monthly return. Returns covering each month's sales must be filed not later than the last day of the following month. For example, you must file your return and pay the tax on September sales not later than October 31st. Interest penalties of two-thirds of one per cent per month, or fraction of a month, are provided for where taxes are not paid by the due date.

Your books and records of account are subject to audit by departmental auditors. You are required to pay any underpayments of tax which may be disclosed, plus interest penalties on any such underpayments.

It is with the collector or sub-collector of Customs & Excise under the purview of whose port or outport your place of business is located, that you file returns and to whom you make remittance of the tax shown on those returns, for transmission to the headquarters of the Department at Ottawa.

Since the sales tax is levied, accounted for, and paid by the manufacturer, the retailer is not concerned with making up returns or paying sales tax, unless, of course, he is held to be the manufacturer or producer of the goods. The tax, however, is often passed on to the retailer in whole or in part in the form of a higher price, or as an actual charge on the invoice to him, and he generally makes some similar attempt to pass it on to his customers.

Excise Taxes

The following federal excise taxes, in addition to federal sales tax, are in effect subsequent to April 5th, 1955:

10 per cent Ad Valorem	on automobiles, motor cycles and all other two-or-three-wheeled motor driven vehicles including motors for attachment to bicycles but not including vehicles specially designed for carrying goods or for use by invalids, toilet preparations and cosmetics, lighters, coin disc or token operated games and amusement devices, smokers' accessories, fountain pens, propelling pencils, ball-point pens, etc., matches, clocks, watches, semi-precious stones, jewellery, cut glassware and certain

articles of china, porcelain and earthenware, carbonated beverages, aerated waters, unfermented fruit juice beverages and other soft drinks, candy, chocolate, confectionery and chewing gum.

15 per cent Ad Valorem on television sets and tubes therefor, radio sets and tubes therefor, phonographs, record players and cigars.

Specific An excise tax is also levied on cigarettes, tobaccos, playing cards, wines and carbonic acid gas and similar preparations to be used for aerating non-alcoholic beverages.

The procedure for filing returns and paying federal excise taxes is similar to that for federal sales tax. If you produce or manufacture a commodity subject to excise tax, you must secure a licence, which is renewable on April 1st of each year. The fee is two dollars. You must file a monthly return.

There are no provincial excise taxes.

Complete details on federal sales and excise taxes can be obtained from the Customs and Excise Division, Department of National Revenue, Ottawa, Ontario.

Provincial Sales Tax

Five provinces levy a direct retail sales tax on most goods sold, used, or consumed within the province. New Brunswick, Newfoundland and Saskatchewan have a three per cent tax, British Columbia has a five per cent tax, and Quebec has a two per cent provincial levy with individual municipalities being allowed a further two per cent plus in some cases one per cent.

All five levies are strictly retail sales taxes. Retail sales are defined as sales to consumers or users for purposes of consumption or use, not for resale. Each of the five require vendors to obtain licence or registration certificates, the former term being used in Saskatchewan and the latter in the other four provinces.

The word 'vendor' includes all retailers as well as manufacturers and wholesalers making retail sales. In actual practice, you are required to register even though not selling at retail,

in order to purchase without tax those materials you buy for resale. Having registered, you are then in a position to quote a licence or certificate number providing you with the means of claiming exemption from tax at the time of purchasing your goods.

You are required to keep adequate records to show taxable and non-taxable sales, purchases, goods taken from stock for personal use, and tax collected. Returns are required on a monthly basis, except in Saskatchewan where a quarterly basis is used. Complete information can be obtained from a District Tax Office of the province concerned.

The municipal sales tax in the Province of Quebec is identical in scope with the provincial levy. The two taxes are administered by the same organization and are collected by the province through a single return. A vendor in taking out a licence for the provincial tax levy automatically becomes registered for municipal sales tax purposes. The amount of the municipal tax is returned to the local centre minus a collection fee.

Customs Duties

The Canadian Customs Tariff comprises over 2,000 classifications, or tariff items and sub-items, with differing criteria as the basis for each. While the majority of the classifications refer to specific commodities, many classifications have been set up along lines of 'material of chief component value'. Others refer solely to end use, some have class or kind 'made or not made in Canada' as a basis for distinction, and still others are combinations of the foregoing. Since the structure of the Tariff is quite complicated, no further description can be attempted here.

The rates of duty accompanying each tariff item are set out in three columns. The first of these shows the British Preferential Tariff rate which applies to goods which are the growth, produce or manufacture of British Commonwealth countries. The second column shows the Most-Favoured-Nation Tariff rate which applies to goods imported from countries with which Canada has made treaties entitling them to Most-Favoured-Nation Tariff treatment (e.g. all the members of GATT which includes, among other countries, the United States, France,

Italy, Western Germany, Belgium, Holland, Sweden, Norway and Denmark). The third column shows the General Tariff rate, which applies to goods coming from countries entitled to neither the British Preferential Tariff nor the Most-Favoured-Nation Tariff rates.

Rates of duty are usually levied on an 'ad valorem' or 'specific' basis. The term 'ad valorem' refers to duties charged as a percentage of the value of the article, i.e. $7\frac{1}{2}$ per cent ad valorem. Specific duties are duties charged per unit of weight or other measure of quantity, i.e. five cents per pound.

When the rate of duty is imposed on an 'ad valorem' basis, the value for duty is determined in accordance with the provisions of Section 35 of the Customs Act, the more important subsections of which read as follows:

> "(2) The value for duty shall be the fair market value, at the time when and place from which the goods were shipped to Canada, of like goods when sold in like quantities for home consumption in the ordinary course of trade under fully competitive conditions and under comparable conditions of sale.
>
> (3) When the value for duty cannot be determined under subsection (2) for the reason that like goods are not sold under comparable conditions of sale, the value for duty shall be the fair market value, at the time when and place from which the goods were shipped to Canada, of like goods when sold in like quantities for home consumption in the ordinary course of trade under fully competitive conditions.
>
> (4) Where like goods are not sold in the manner described in subsections (2) or (3), the value for duty shall be the fair market value, at the time when and place from which the goods were shipped to Canada, of similar goods when sold in like quantities for home consumption in the ordinary course of trade under fully competitive conditions and under comparable conditions of sale.
>
> (5) Where like goods are not sold in the manner described in subsections (2) or (3) and the value for duty cannot be determined under subsection (4) for the reason that similar goods are not sold under comparable conditions

of sale, the value for duty shall be the fair market value, at the time when and place from which the goods were shipped to Canada, of similar goods when sold in like quantities for home consumption in the ordinary course of trade under fully competitive conditions.

(6) When the value for duty cannot be determined under the preceding subsections for the reason that (a) like or similar goods are not sold for use or consumption in the country of export, or (b) there is no established market in the country of export for like or similar goods, then the value for duty of the goods shall be such value as the Minister determines.

(7) Where the value for duty cannot be determined under the preceding subsections, the value for duty shall be the actual cost of production of like or similar goods at the date of shipment to Canada, plus a reasonable addition for administration costs, selling costs and profit."

Subsections (2), (3), (4), (5) and (6) are invoked where the commodity in question enters in the same condition as sold on the open market in the country of origin. Generally speaking, subsection (7) is invoked where the commodity enters in a condition other than that as sold on the open market. This last subsection has pertinence where materials, parts or components that are the captive production of a foreign plant are being brought in for incorporation into a product to be produced in Canada.

The Canadian Customs Tariff is administered by the Customs and Excise Division of the Department of National Revenue, with head office in Ottawa, and ports and outports located in the major centres throughout Canada. Further information can be obtained by writing to the Department in Ottawa or contacting the local office nearest you.

Unemployment Insurance

The Unemployment Insurance Act provides for the compulsory insurance of all persons employed under a contract of service or apprenticeship unless they are specifically excepted from coverage under the Act. Persons in excepted employment

are not insurable in respect of such employment. There is no age limit for insurable employment and insurance books are required for all insurable employees. You should make sure that all your employees are insured unless their employment is definitely non-insurable. If you are in doubt, write to the local office of the Unemployment Insurance Commission, explaining in detail what your employee does. The local office will give you a ruling on the matter. For your own protection, you should make sure that all such rulings by the local office are confirmed in writing.

Every employer with insurable employees in Canada is required to register with the Commission. You should do this by obtaining an Application for Registration, Form 401, from the Commission's nearest local office, completing it, and returning it immediately to the local office. You will then be registered as an employer and a "Licence to Purchase Unemployment Insurance Stamps" will be sent to you by return mail. If your business has branch establishments, you should decide from what point or points unemployment insurance is to be controlled, and make a separate application for registration to the Commission's local office serving each point. If your payroll is controlled from your head office, one registration is sufficient.

Unemployment insurance contributions are recorded by affixing unemployment insurance stamps or meter impressions in insurance books. Employers with large payrolls may be authorized to pay contributions in bulk by cheque. Unemployment insurance stamps are available at most post offices. You must produce your licence to purchase stamps each time you buy them.

You must have in your possession, an insurance book for every insurable employee on your payroll. Penalties are provided for non-compliance with this regulation.

When engaging a new employee, secure his insurance book, begin making contributions as soon as he starts to work for you, and continue to do so during the entire period he is in your employment. If he says that he has left his insurance book with a former employer, have him obtain it at once. If he has lost his book, ask him for his Unemployment Insurance Registration or Identification Card which shows you his insurance

number. You should then write to the Commission's local office for a new book, quoting this number, full name and date of birth. If you cannot find out your employee's insurance number or if he has never before been insured under the Act, you should write to the Commission's local office for Form 409, "Application for Insurance Book", to be completed and returned to the local office. You will then receive an insurance book for your new employee. You may find it more convenient to send your employee to the local office to fill out Form 409 and receive his new insurance book or a temporary insurance card Form 407A. This application must be made within three days after engagement.

You must keep payroll records for your employees. Unemployment insurance auditors visit all employers to see that they are complying with the law. Penalties may be imposed for failure to keep adequate records.

When an employee leaves your service, you must give him his insurance book, properly stamped to date, immediately upon his leaving, and obtain a receipt for it. Severe penalties may be imposed on you for withholding insurance books from your employees, regardless of the reason for your releasing them from employment.

If your employee dies, or leaves without your knowledge of his whereabouts, send his insurance book *immediately* to the Commission's local office and ask for a receipt.

All insurance books in your possession must be turned in to the Commission's local office for renewal when so requested or as indicated in the insurance book.

You should consult the pamphlet "Employer's Handbook on Unemployment Insurance", obtainable from the local office of the Commission, for information on the calculation of earnings, contribution periods, contributions payable, minimum records to be kept, refunds, benefits, excepted employments, etc.

Workmen's Compensation

Workmen's Compensation Acts exist in every Canadian province. They provide compensation for disability, and

medical treatment for injury, where either or both of which are caused by accidents arising out of employment or by an occupational disease covered by the Acts.

Each Act provides for an accident fund, created by employers and administered by the province, from which payment is made to workers who become eligible for compensation. The fund is created by payments made annually by those industries covered by the Act. Such industries are divided into classes according to their accident records and have corresponding assessment rates. The rates are set by the Workmen's Compensation Board of the province in question.

The provincial Workmen's Compensation Acts vary in scope, but in general cover most of the industries in each province. In most provinces, farming and domestic service are the only large occupational groups not covered by the Acts. Establishments in certain industries employing less than a specified number of employees are also normally excluded.

It is compulsory for an employer carrying on an enterprise covered by his provincial Act to report his payroll to the Workmen's Compensation Board and pay an assessment on the earnings of his workmen. New employers commencing or recommencing operations should write to the Board in advance, giving full particulars of their proposed operations and furnishing an estimate of their current year's payroll. This must be followed each year by an annual statement showing (1) the annual payroll of the preceding year, and (2) an estimate of the payroll for the coming year. These statements are due on a specified date, and forms for the purpose are mailed well in advance to those employers who have been reporting.

The initial assessments are provisional. They are based on the payroll estimate made by employers, or based on an estimate fixed by the Board, with a final adjustment after the close of the year when wages actually paid can be calculated. The assessments are designed to provide sufficient money to pay for the accidents happening in each class of enterprise during the year. They are individually adjusted after the close of the year if the accident experience of the class or group calls for it.

Assessments are paid when notice is received from the Board. These notices are mailed only when returns are received from all employers and the provisional rates can be struck.

Every employer is required to keep a careful and accurate record of all expenditures for wages, showing the names of his employees, their earnings and the dates during which they were employed by him. These records must be produced for the Board and its officers as often as required. They should not be destroyed. Employer's returns and records are at all times subject to audit and investigation.

Standards

Building Standards

Local authorities usually make some attempt to regulate the location of residential, commercial, and industrial buildings. These regulations have been developed to protect property values and to provide for orderly growth. Questions of location must be discussed with municipal authorities.

In most centres you will have to obtain a municipal building permit. Such permits serve a dual purpose; as well as a means of controlling location, the permit also serves to bring construction to the attention of building inspectors, thereby easing their task of enforcing municipal construction by-laws.

The location of industrial premises is also affected by provincial and municipal pollution regulations. Some of the provinces require that health officials be consulted where a firm proposes to discharge effluent directly into waterways or streams. Plans must be approved in order to ensure that composition of the effluent will comply with established tolerances. Where wastes are being discharged into municipal sewage systems, responsibility rests with local officials and they should be consulted where the discharge gives rise to special treatment problems.

The erection or alteration of a building for use as a factory is also subject to control in most provinces by the provincial Department of Labour. Drawings and specifications must be submitted for approval. Similar requirements often apply

to the erection or alteration of a building to be used as a retail outlet, restaurant, office, etc. In those provinces where provincial control exists, municipal building permits are issued only when the approval of the provincial authorities has been obtained.

Boilers and pressure vessels must be approved before being installed. Designs must be submitted to the Department of Labour. Regulations are also in force in most provinces with regard to elevators and hoists. The equipment is subject to inspection by provincial labour authorities.

Electrical installation must conform to the provisions of the Canadian Electrical Code. The code has been adopted and has the force of law in all provinces other than Newfoundland, where adoption of the code has been a matter for municipal action.

Where an industrial employer proposes to occupy a factory that is already constructed, he must notify his provincial Department of Labour advising them as to the name of his firm, the nature of the work and the amount of motive power to be used. Such notification facilitates subsequent inspection by department officials.

Premises must be maintained so that they are structurally sound and in a safe condition. Where provincial authorities consider that machinery, construction, etc., is or could be a source of danger to the health or safety of an employee or of persons having access to a factory, they will bring the matter to the attention of the employer or owner and direct him to take measures to eliminate the danger.

Standards for Electrical Apparatus

Electrical apparatus and equipment offered for sale in Canada must be approved by the Canadian Standards Association. Application for approval may be made in person or in writing to the CSA Approvals Laboratories, 77 Florence Street, Toronto 4, Ontario, or to the CSA District Office in the location concerned. United Kingdom manufacturers should address their communications to the Principal Officer, B.S.I./CSA

Approvals Agency, British Standards Institute, 24-30 Gillingham Street, London, S.W.1, England; European manufacturers—N.V. tot Keuring von Electro Tech Nische Materialen (KEMA), Utretcht, Seweg 210, Arnaghm, The Netherlands.

All provinces have enacted legislation requiring that electrical equipment comply with CSA standards. Regulations prohibit advertising, selling, renting, or in any manner transferring ownership or possession where electrical equipment has not been CSA approved. As a matter of self-protection, a dealer buying electrical merchandise should insist that the terms of sale include a warranty that the equipment meets CSA standard.

Weights and Measures—Electricity and Gas

The Standards Division of the Department of Trade and Commerce, Ottawa, is responsible for approval before use, and field inspection after approval, of commercial weighing and measuring equipment, electricity meters, and gas meters. Before any of these devices may be manufactured or imported for sale for commercial use in Canada, they must have type approval by the Standards Division.

Prototypes and specifications are submitted to the Division's Laboratory for inspection and test. Here the devices are approved or rejected as the circumstances warrant. After type approval, manufacturers or importers can sell to commercial outlets, but all equipment is inspected either at point of importation or factory of manufacturer before release.

In addition, all such devices are inspected in the field in the periods specified by the appropriate Acts, at which time they are sealed for a further period, or rejected. The periods within which devices must be inspected are:

Weighing and measuring equipment	one year;
Electricity meters	six or eight years, as specified in the Electricity and Gas Regulations;
Gas meters	six years.

Rejected devices are either scrapped or repaired, and re-sealed for use.

Ancillary to the work of checking, weighing and measuring devices, the field staff of the Division continually checks commercial outlets for inaccurate scales and evidence of short weight in prepackaged commodities.

Precious Metals

The Standards Division of the Department of Trade and Commerce, Ottawa, is also responsible for the administration of the Precious Metals Marking Act. The legislation defining the markings which may be used to indicate the metallic content of articles. Under this legislation, certain definite qualities of fineness are established for gold, silver, platinum and palladium, and inspection is carried out to ensure that these specifications are maintained. Both field and factory inspections are undertaken and assays are made as necessary. Imported precious metals are subject to the same inspections as those manufactured in Canada. Trade marks, registered with the Registrar of Trade Marks, Secretary of State Department (or for which application for registration has been made), must be shown on articles composed of precious metals if the prescribed quality marks are used.

Food and Drugs

The Food and Drugs Act, and the Proprietary or Patent Medicine Act, administered by the Food and Drug directorate of the Department of National Health and Welfare, Ottawa, are vitally important to all manufacturers and sellers of foods, drugs, cosmetics and therapeutic devices.

The "Food and Drugs Act, 1953" was proclaimed on July 1st, 1954. This Act is similar to the previous Act except that there is provision for inspection of premises and records pertaining to food and drug manufacture and distribution, and penalties for infractions are increased substantially.

In general, the Act provides that no food may be sold that has in or upon it any poisonous or harmful substance, is unfit for human consumption, consists in whole or in part of any putrid, disgusting, rotten, decomposed or diseased animal or

vegetable substance, is adulterated or was manufactured, prepared, preserved, packaged, or stored under unsanitary conditions. "Adulteration" is not used as a general term in the Act, but practices which constitute adulteration are specified in the regulations. In addition, there must not be deception in connection with the labelling and advertising.

The Act also states that drugs must not be manufactured, prepared, preserved, packed, or stored under unsanitary conditions and must not be adulterated. Similarly, cosmetics must be manufactured under satisfactory conditions and must be safe for use according to directions.

Regulations under the Food and Drugs Act establish very definite requirements. Although it is often sufficient simply to define a food from the standpoint of health, the regulations frequently deal with methods of production and establish very strict standards of purity. The use of colourings, flavourings, and preservatives is closely regulated. So is the quality of alcoholic beverages, cocoa, coffee, fruit, fruit juices, jams, grain and bakery products, and dairy produce (milk, butter, cheese).

Where standards have been provided by regulation for foods or drugs, no deviation from these standards is permitted. In the case of drug standards established by regulation, these are referred to as "Canadian Standard Drugs" or C.S.D. and these must be described as such in the labelling. The number of Canadian Standard Drugs has been reduced to twenty and their specifications are contained in Divisions 5 and 6 of the regulations for drugs. Other drugs must come up to the standard under which they are sold. Recognition is given to those drugs included in the British Pharmacopœia, the International Pharmacopœia, the United States Pharmacopœia, the Codex Français, the Canadian Formulary, the British Pharmaceutical Codex and the National Formulary. However, other drugs may be sold providing they are not likely to be confused with those mentioned above and providing the standard under which they are to be judged is clearly indicated. For proprietary preparations, the standard is that claimed by the manufacturer.

Labelling

Food labels and drug labels must give certain pertinent information. In the case of a food product, the label must indicate:

(*a*) the common name of the food,
(*b*) the name and address of the manufacturer,
(*c*) the net content of the package by weight, measure or number (if the gross weight is over 2 ounces),
(*d*) the list of ingredients in the descending order of their proportion for all foods that consist of more than one ingredient, unless a standard is provided in the regulations, or unless otherwise exempted,
(*e*) when present, Class II, III and IV preservatives, colour and artificial flavouring, on the main panel of the label, unless otherwise exempted.

In the case of drug products sold under the Food and Drugs Act, the label must indicate:

(*a*) the proper name of the drug (or the common name if there is no proper name),
(*b*) the name and address of the manufacturer,
(*c*) the net content,
(*d*) the complete list of medicinal ingredients,
(*e*) the dosage, for potent drugs,
(*f*) adequate directions for use.

Vitamins may not be mentioned on labels or in advertisements unless the food or drug to which they refer provides a specified amount in a reasonable daily intake of them.

Before any broadcast is permitted, the Canadian Broadcasting Act requires that all radio "commercials" concerning foods, drugs, cosmetics or devices be submitted for review by the Food and Drug Directorate. This is done to ensure that such advertising conforms to the intent as well as the letter of the Food and Drugs Act. Similar surveillance is exercised over claims concerning other preparations.

The Food and Drugs Act specifies that no food or drug may be imported, offered for sale or sold, if represented to the public by label or advertisement as a treatment for certain conditions or ailments listed in a schedule to the Act (cancer, tuberculosis,

venereal diseases, and many others). *A Guide for Manufacturers and Advertisers* has been prepared, which indicates the Department's attitude on the representations that may be made, and the expressions used, in the marketing of food and drugs.

The inspectors of the Food and Drug Directorate patrol their districts systematically, warning dealers and others of what is not in compliance with the law and taking samples of foods for examination in the laboratories. Steps are taken to remove faulty goods from sale. Serious or repeated offences may lead to prosecution.

While the Food and Drugs Act requires a list of medicinal ingredients on the labels of packages, it is possible, in certain cases, for manufacturers to protect the secrecy of their formula. This can be done by registering the preparation under the Proprietary or Patent Medicine Act, in which case, instead of a complete list of medicinal ingredients, the Proprietary or Patent Medicine registration number must appear on the label. However, the names and amounts of certain potent drugs must still be declared. Applications for registration under this Act are reviewed by medical officers of the Department of National Health and Welfare.

Licences to manufacture food or drugs are not required under the Food and Drugs Act, with the exception of certain pharmaceutical and biological products, in which case manufacturing establishments are licensed by the Department.

Finished products should always be checked to ensure that they comply with the Food and Drugs Act. Familiarity with the Regulations, both in respect of standards of quality and requirements for labelling, is essential.

The Inspection Services of the Food and Drug Directorate are available to give producers and retailers the benefit of their experience on proposed labels and advertising, and on the provisions of the Act and its interpretation.

Enquiries for further information should be addressed to:

The Director,
Food and Drug Directorate,
Dept. of National Health & Welfare,
Ottawa, Ontario.

Grading

Grading regulations are found mainly in legislation concerned with agricultural products. In this particular field, provincial governments and the federal government have concurrent powers and while the grades conform in many instances, there are individual cases where the provincial regulations applying in a given area are higher than those set by the federal government. Recourse must be had to the Federal Department of Agriculture in Ottawa and to provincial Departments of Agriculture in order to obtain complete information.

Amongst the items required to be graded, depending upon origin and destination, are: beef, butter, cheese, chicks, eggs, fruit, honey, lamb, dried skim milk, pork, and poultry. Other government grading regulations refer to animal pelts and hides.

Regulatory Licensing

While there is no one law requiring that a licence or permit be obtained before a business can be commenced, there are particular laws or statutes affecting specialized skills, trades, businesses, etc., which will have a bearing on individual cases.

While particular legislation may be found at federal and provincial levels of government, most businessmen are initially concerned with municipal by-laws. Where an industry, trade or occupation is not specifically mentioned in a municipal licensing by-law, it will usually be found that there is a blanket provision requiring that a businessman have the approval of the authorities, either in the form of an outright licence or by way of express permission or authorization. The first contact then should be the local authorities in the centre in which you propose to operate. Following on that, correspondence should be directed to the provincial and federal departments that would most likely be concerned with the operations you have in mind.

The following is a listing of some of the businesses, trades and occupations which may be required to be licensed: abattoirs, accountants, architects, auctioneers, automobile dealers, bakeries, barber shops, barristers and solicitors, beauty shops, cigarette and tobacco dealers, cleaning and dyeing, collection agencies, commercial creameries, commercial printing, common

and contract carriers by motor vehicle, contractors, day nurseries, dealers in old gold, other precious metals and jewellery, dentists, druggists, electricians, embalmers, employment agencies, engineering, feed stuff dealers, fish dealers, fishing, fruit and vegetable dealers, fumigators, fur buyers and dealers, fur farming, hatcheries, hunting, insurance agencies, laundries, livestock dealers, fresh meat dealers, milk and cream vendors, motor vehicle dealers, motor vehicle salesmen, nursing homes, pawn-brokers, pharmacists, photo finishing, physicians and surgeons, plant nurseries, plumbers, prospecting, public garages, public halls, real estate brokers, refreshment rooms, restaurants, retailing, roller skating rinks, second-hand book dealers, second-hand shops, seed dealers, shoe repair shops, shoe shine parlours, shooting galleries, sign painters, slaughter houses, stock-yards, street photographers, surveyors, swimming pools and baths, taxi-cabs, theatres, tourist camps, transient contractors, transient traders, trapping, veterinary surgeons, wholesaling.

The manufacture or processing of a wide variety of items may also be subject to licence. Included are—alcoholic beverages and products using alcohol, butter and cheese, certain drugs, fertilizers, fish products, fruits and vegetables, honey, livestock and poultry feeds, maple products, margarine and edible oil products, meat products, minerals, pesticides, wood products.

Particular controls are also to be found in the fields of radio broadcasting, civil aviation, insurance, money-lending, motor vehicle operation, and railroad and water transport.

Property Rights

Patents

If you have invented something and wish to protect it, you should secure a patent on it from the Patent Office at Ottawa. If you secure a patent you are granted the exclusive right of making, using, and selling the invention, subject to the rulings of a court of competent jurisdiction, for a period of seventeen years from the date on which the patent was issued. If your

patent remains unworked after three years, or if you abuse your patent rights, the Commissioner of Patents may, on application, grant a compulsory licence for the manufacture of the patented invention by someone else in Canada.

If you have an invention you wish to patent, you should write to the Patent Office, Secretary of State Department, Ottawa, Canada, for the booklets, "Patent Act, 1935" and "The Patent Rules, 1948", which give all the details of procedure. It is highly desirable that you employ an experienced patent attorney or patent agent because the many details which must be attended to may be confusing to the average man. A patent's value depends upon the care and skill with which specifications and claims are prepared.

Your application for a patent must be submitted according to a specified form. You must describe the invention in such detail and provide such drawings as will clearly indicate its nature. Specifications must be either wholly in English or wholly in French. When you send the application to the Patent Office and pay the filing fee, the application is given a filing date, provided it has a petition, a description, claims, and drawings if necessary. You have twelve months to file any missing paper or to correct informal papers. A completion fee is required if the application was not originally complete.

When your application is completed, the Patent Office undertakes a thorough examination to make sure that your application contains new and patentable subject matter. If it is found that you have an invention, you will be issued a patent upon the payment of the required fee.

There are no annual fees required to keep a patent in force. You may assign your patent to other persons, but you should register such assignments with the Patent Office.

Further information can be obtained from:

The Commissioner of Patents,
Secretary of State Dept.,
Ottawa, Ontario.

Industrial Designs

If you have developed an original ornamental design for your product and wish to protect it, you can do so through the Patent Office.

Registration must be made within one year of the publication of the design in Canada. The first step is to make application to the Commissioner of Patents, accompanied by drawings and a description of the design of the manufactured product, and the required fee. The Patent Office investigates the originality of the design, and if it finds that the design cannot be confused with one already registered, it will register the new design and issue you a certificate of registration.

Registration gives the proprietor an exclusive right to the use of the design for a period of five years, but this term may be extended for a further term of five years on payment of the prescribed fees. Exclusive rights cannot be obtained for more than ten years. You may assign industrial designs to other persons.

You can obtain full details on the registration of industrial designs in the Industrial Design and Union Label Act, a copy of which can be obtained by writing to:

The Patent Office,
Secretary of State Department,
Ottawa, Ontario.

Copyright

In Canada, a copyright offers protection to original literary, dramatic, musical, and artistic works, and gives the author the exclusive right to produce, reproduce or publish his own works. The term for which copyright exists is the life of the author and fifty years after his death. Copyright in such works as records, discs, mechanical contrivances, and photographs is for a term of fifty years. Copyright may be assigned to other persons.

It is important to note that if you have created an original work, copyright exists in such original work from its date of production whether you have registered it or not. Registration

is evidence of ownership of the copyright. Two types of registration are provided: one for non-published works, the other for published works, the latter being those of which copies have been made available to the public.

The Copyright Office does not require or accept copies of the copyright work for filing. Further information on copyrights may be obtained from:

The Commissioner of Patents,
Secretary of State Dept.,
Ottawa, Ontario.

Trade Marks

The registration of trade marks, although advisable, is not compulsory except as regards wares containing precious metal. You may make application for registration of a mark based on proposed use in Canada; on use in Canada; on making known in Canada, together with use in a country of the Union[1]; or on use and registration in another country of the Union.

Trade marks which are not registrable include those using such symbols as the National Flag, Arms, or Crest of Canada or any foreign state; the name or surname of an individual; deceptive marks or those which are clearly descriptive of the character of the wares or their place of origin; marks which are confusing with trade marks already registered.

The Trade Marks Act which came into force on July 1, 1954, provides for the registration of service marks and for the registration of a person other than the owner of a registered trade mark as a registered user thereof.

Further information and applications for registration may be obtained from:

The Registrar of Trade Marks,
Secretary of State Dept.,
Canadian Building,
Ottawa, Ontario.

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[1] By "Union" is meant the "Convention for the Protection of Industrial Property", commonly known as the "Convention of the Union of Paris". It is an international agreement governing the use of trade marks. Canada is a member of this Convention.

Labour Legislation

Labour legislation in Canada is for the most part a matter of provincial concern. Federal legislation in the field is restricted in its application during peacetime.

Provincial labour legislation covers such points as employment of young persons, maximum hours of work, minimum rates of pay, annual vacations with pay, and certain minimum standards for the health and safety of the employee.

For example, minimum wages for factory employment have been established in all provinces other than Prince Edward Island. This statutory requirement is normally not the amount paid in practice. Higher minimums may be binding on *all* or a number of firms in a particular trade or industry, within an area or throughout a province, as a consequence of agreement between the *majority* of the employers and employees. Such agreements have the force of law under the terms of Industrial Standards Legislation. Industrial Standards Legislation is found in New Brunswick, Nova Scotia, Ontario and Saskatchewan. The Provincial Labour Act in Alberta and the Manitoba Fair Wage Act also provide that the wages and hours agreed upon at a conference between employers and employees in designated trades can be made legal throughout the trade concerned.

Possibly the most important piece of legislation is that dealing with unionization. Freedom of organization is guaranteed. Employers are required by law to recognize and bargain with the trade union representing the majority of their employees. Wages and other conditions of work established as a consequence of bargaining have the force of law for the duration of the contract in each individual case.

Complete information on provincial legislation, regulations, and administrative procedure, can be obtained by contacting the Deputy Minister of the Department of Labour for the province concerned.

Recruitment of personnel can be handled by a local branch of the National Employment Service or through advertising in daily or weekly papers, trade journals, etc. The National Employment Service, with approximately 250 local offices, has been set up as an organization to which an employer in need

of labour and workers seeking jobs may apply. The business-man who may need to recruit a sizable number of employees should initially contact the National Employment Service, since it is in a position to provide him with valuable information concerning man-power supply and demand by industry and geographical region. Head office of the National Employment Service is located in Ottawa.

Workmen's Compensation and Unemployment Insurance Legislation are also closely connected with labour conditions. Reference has been made to both these points on pages 88 and 110.

Pricing and Competition

Resale Price Maintenance

The Combines Investigation Act in Section 34, forbids a supplier of goods from prescribing the prices at which they are to be resold by wholesalers and retailers, i.e. the practice of resale price maintenance. The supplier, however, may suggest resale prices so long as he does nothing else which could be construed as being intended to require or induce the trade to maintain such prices or as having that effect. The section provides:

> "(1). In this section 'dealer' means the person engaged in the business of manufacturing or supplying or selling any article or commodity.
>
> (2). No dealer shall directly or indirectly by agreement, threat, promise or any other means whatsoever, require or induce or attempt to require or induce any other person to resell an article or commodity
>
> (*a*) at a price specified by the dealer or established by agreement,
>
> (*b*) at a price not less than a minimum price specified by the dealer or established by agreement,
>
> (*c*) at a markup or discount specified by the dealer or established by agreement,
>
> (*d*) at a markup not less than the minimum markup specified by the dealer or established by agreement, or

(*e*) at a discount not greater than a maximum discount specified by the dealer or established by agreement,

whether such markup or discount or minimum markup or maximum discount is expressed as a percentage or otherwise.

(3). No person shall refuse to sell or supply an article or commodity to any other person for the reason that such other person

(*a*) has refused to resell or to offer for resale the article or commodity

(i) at a price specified by the dealer or established by agreement,

(ii) at a price not less than a minimum price specified by the dealer or established by agreement,

(iii) at a markup or discount specified by the dealer or established by agreement,

(iv) at a markup not less than a minimum markup specified by the dealer or established by agreement, or,

(v) at a discount not greater than a maximum discount specified by the dealer or established by agreement, or

(*b*) has resold or offered to resell the article or commodity

(i) at a price less than a price or minimum price specified by the dealer or established by agreement, or

(ii) at a markup less than a markup or minimum markup specified by the dealer or established by agreement, or

(iii) at a discount greater than a discount or maximum discount specified by the dealer or established by agreement.

(4) Every person who violates subsection (2) or (3) is guilty of an indictable offence . . ."

Combines

Canadian antitrust legislation is contained in the Combines Investigation Act and in Section 411 of the Criminal Code. The legislation establishes the important principle that the public is entitled to the safeguard of competition and makes it a

criminal offence for any two or more businessmen to enter into an agreement which has or is designed to have the effect of lessening competition and which has operated or is likely to operate to the detriment of the public, whether consumers, producers or others.

In interpreting the legislation as applied to price fixing agreements, Canadian courts have held that where such agreements, if carried into effect, would substantially eliminate competition in price over a considerable area of trade such agreements are contrary to the legislation. In doing so, the courts have emphasized that the test of illegality is not the reasonableness or unreasonableness of the prices fixed by the agreement, but rather the extent to which the agreement has lessened or is designed to lessen competition from a nation-wide, regional or local point of view.

In other words, it is the function of competition to regulate prices and the offence is committed when two or more persons, by agreement, usurp that function. An examination into the fairness of the prices themselves is neither required nor feasible in order to establish the offence and, conversely, is not useful as a defence. For one thing, an agreement that resulted in reasonable prices today might result in entirely unreasonable prices tomorrow. Once the principle of the regulation of prices by competition were departed from, the only possible alternative would be regulation of prices by the government, and this would be a serious encroachment upon the system of free enterprise, which it is the policy of the legislation to foster. To be illegal such an agreement need not necessarily be of a formal nature replete with specific enforcement devices but may be informal, tacit or inferred from some type of uniform action since an informal type of agreement may be fully as effective in suppressing competition as one involving specific enforcement measures.

In cases where Canadian courts have found undue lessening of competition, it has generally been established that there were agreements among competitors collectively dominating a given market and involving one or more of the following practices:

(1) uniform and simultaneous price changes,

(2) standardization of credit terms and other terms of sale,

(3) standard cost and profit formula method of fixing prices,
(4) fictitious competitive tenders,
(5) refusal to deal with anyone who will not accede to a combination,
(6) circulation of lists of parties or classes of people who are not to be dealt with or who are alone to be dealt with,
(7) purchasing or leasing of factories to hold them idle.

This list should not be considered as all inclusive. It simply enumerates some of the practices condemned by the courts in specific cases.

Monopoly

While the foregoing section deals solely with the effect of agreements involving restrictive practices, it should be borne in mind that the Combines Investigation Act also deals with merger, trust or monopoly. In cases where an individual businessman substantially or completely controls the class or species of business in which he is engaged, restrictive practices and price abuses may be put into effect without any element of agreement. In cases of this kind, the effect of such practice upon the public interest would have to be considered in the light of the monopoly position occupied by such person in order to determine whether the Act has been contravened.

Price Discrimination

Price discrimination is the practice of selling the same commodity at varying prices to two or more different buyers who are competitors. In Section 412 of the Criminal Code, this practice is specifically declared illegal under the following conditions:

"(1). Everyone engaged in trade, commerce or industry who

(*a*) is a party or privy to, or assists in, any sale that discriminates to his knowledge, directly or indirectly, against competitors of a purchaser, in that any discount, rebate, allowance, price concession, or other advantage, is granted to the purchaser over and above

any discount, rebate, allowance, price concession or other advantage available at the time of such sale to such competitors in respect of a sale of goods of like quality and quantity;

(*b*) engages in a policy of selling goods in any area of Canada at prices lower than those exacted by such seller elsewhere in Canada, having or designed to have the effect of substantially lessening competition or eliminating a competitor in such part of Canada; or

(*c*) engages in the policy of selling goods at prices unreasonably low, having or designed to have the effect of substantially lessening competition, for the purpose of destroying competition or eliminating a competitor;

is guilty of an indictable offence.

(2). It is not an offence under paragraph (a) of subsection (1) to be a party or privy to, or assist in any sale mentioned therein unless the discount, rebate, allowance, price concession or other advantage was granted as part of a practice of discriminating as described in that paragraph.

(3). The provision of paragraph (a) of subsection (1) shall not prevent a co-operative society returning to producers or consumers, or a co-operative wholesale society returning to its constituent retail members, the whole or any part of the net surplus made in its trading operations in proportion to purchases made from or sales to the society."

Unfair Competition

Section 7 of the Trade Marks and Unfair Competition Act states that:

"No person shall

(*a*) make a false or misleading statement tending to discredit the business, wares or services of a competitor;

(*b*) direct public attention to his wares, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his wares, services or business and the wares, services or business of another;

(*c*) pass off other wares or services as and for those ordered or requested;

(*d*) make use, in association with wares or services, of any description that is false in a material respect and likely to mislead the public as to

(i) the character, quality, quantity or composition,

(ii) the geographical origin, or

(iii) the mode of the manufacture, production or performance,

of such wares or services; or

(*e*) do any other act or adopt any other business practice contrary to honest industrial or commercial usage in Canada."

Unfair competition through the medium of false advertising is an indictable offence. The Criminal Code, in Section 306, covers the subject as follows:

"306. (1) Every one who publishes or causes to be published an advertisement containing a statement that purports to be a statement of fact but that is untrue, deceptive or misleading or is intentionally so worded or arranged that it is deceptive or misleading, is guilty of an indictable offence and is liable to imprisonment for five years, if the advertisement is published

(*a*) to promote, directly or indirectly, the sale or disposal of property or any interest therein, or

(*b*) to promote a business or commercial interest.

(2) Everyone who publishes or causes to be published in an advertisement a statement or guarantee of the performance, efficiency or length of life of anything that is not based upon an adequate and proper test of that thing, the proof of which lies upon the accused, is, if the advertisement is published to promote, directly or indirectly, the sale or disposal of that thing, guilty of an offence punishable on summary conviction."

Chapter XI

BANKRUPTCY AND INSOLVENCY

Meaning of the Terms

Under the Bankruptcy Act, the term "insolvent person" means a person who is not bankrupt and who resides or carries on business in Canada; whose liabilities to creditors provable as claims under the Act amount to one thousand dollars: and (1) who is for any reason unable to meet his obligations as they generally become due; or (2) who has ceased paying his current obligations in the ordinary course of business as they generally become due; or (3) the aggregate of whose property is not sufficient to enable payment of all his obligations due and accruing due.

Under the same Act, a person is "bankrupt" who has made an assignment or against whom a receiving order has been made. Thus regardless of whether or not a person is insolvent or has committed an act of bankruptcy, he is not bankrupt until he has filed an assignment with the official receiver in his locality or a receiving order has been made following the filing of a petition in court.

Causes of Bankruptcy

In the year 1954, 2,265 cases of bankruptcy occurred under the Federal Bankruptcy Act and in addition, 463 proposals were submitted by insolvent persons during the year.

Actually, a study of the causes of bankruptcy would amount to a study of all the faults of business management. All we can do here is to indicate some of the major errors which should be avoided.

A large proportion of bankruptcies are caused by insufficient capital. This may mean that the proprietor's judgment in gauging his business requirements was faulty. It may mean

that the business was overexpanded, having either accepted too much credit, or extended too much credit. New businessmen are often susceptible to the arguments of equipment salesmen, buy too much or too expensive display counters or other equipment on credit, and cannot keep up the payments on it. The same is true of buying merchandise on credit. Asking for and receiving too many bank loans often leads to financial difficulty. Do not buy on credit or borrow unless you can clearly foresee your being able to meet your obligations as they mature. Another aspect of overexpansion is the opening of branch stores which are unprofitable and which drag the whole business, including the financially sound parts of it, down into insolvency. Borrowing capital from friends and relatives is inadvisable. See to it that your capital is ample for your enterprise, and further, that you have allowed yourself a surplus adequate to take care of unexpected turns of events or your own errors of judgment.

Businessmen just starting up sometimes make the error of paying themselves large salaries which are not justified by the size of the firm or the success of its operations. In effect, such large drawings deplete the firm's capital. New businessmen are well advised to plow back into their firms a large part of the profits they make, and to hold down their salaries to quite moderate levels.

A serious error and frequent cause of bankruptcy is failure to keep adequate books and records. The result is that the owner never knows the exact state of his business. The books essential to the proper conduct of a business enterprise, and which by law must be kept, are invoices, cash book, accounts receivable, general ledger, and balance sheet. In addition, the proprietor should draw up monthly statements showing the exact state of his business.

Sometimes new store owners make the error of not adding the correct margins to their cost prices, with the result that they consistently sell their goods at prices which are too low. Although this may seem to be good business because it gives a proprietor an immediate selling advantage over his competitors, it will be found to be harmful in the long run, for the total return from net sales will be inadequate to cover costs and expenses. Correct markups are calculated by adding expenses and profit

margin to invoice prices. Expenses should be carefully calculated and added to invoice prices. These include rents, employees' wages, electricity, fuel, taxes, and your family's cost of living. Then the customary profit margin should be calculated as a percentage of invoice plus expenses, and added to their sum. The result is the retail selling price. Large firms are very careful about this matter of markup, and so must small firms be if they are to stay in business.

Dishonest employees and laxness in dealing with employees are sometimes causes of business failure. Watch your cash carefully. You should not allow employees to borrow money from the cash till under any pretext whatsoever. Such borrowing tends to encourage clerks to live beyond their means, and such employees are not reliable. The practice will lead to faulty records and may lead to theft. At least it encourages an attitude towards money which may cause the proprietor trouble. A proprietor should guard against pilferage of his merchandise by taking stock frequently at cost price. Check the merchandise on your shelves against your invoices and sales records. Do this yourself. Do not leave it to one of your employees.

Sometimes peculiarly personal factors bring about bankruptcy. One of these is lack of experience. Since this has already been dealt with in Chapter I, it will not be discussed here. Another cause of failure is prolonged sickness when the proprietor makes no adequate provision for someone else to carry on the business. During his absence the business is either shut up entirely, during which period trade is lost and customers form the habit of going to other stores; or else the supervision of the business is inadequate and bad methods of operation creep in which sap the firm's vigour and endanger its solvency.

Further causes of bankruptcy are bad store location and rents which are too high for the volume of business the store can do.

Meeting the Approach of Insolvency

If you find that your business is running at a loss, that your capital is depleted or exhausted, that there is no apparent prospect of success, that you cannot pay your debts as they

become due, and that your liabilities are $1,000 or more, do not wait until there is nothing left and you are forced into bankruptcy. Go and consult a chartered accountant, or better still, one of the trustees in bankruptcy. The latter are men or companies licensed under the Bankruptcy Act to act as trustees in bankruptcy and proposal matters. There are licensed trustees in all the large and in many of the smaller cities in Canada. Have them examine your business. If you are in financial difficulties, you may be able to make arrangements with your creditors without going bankrupt, although these arrangements come under the regulations of the Bankruptcy Act.

If you are in serious difficulties you should be warned against making false representations as to the value of your assets in order to obtain credit, giving undue preference to any of your creditors, continuing to trade after you know yourself to be insolvent, or taking any action to delay or defeat your creditors.

Procedure

Let us suppose that you have become insolvent. Either of two procedures is open to you, corresponding to the two types of proceeding under the Bankruptcy Act.

Firstly, you can make over all your property for the benefit of your creditors, thus becoming a bankrupt. To make an assignment, you must have resided in or carried on business in Canada, have liabilities to creditors of not less than $1,000, and otherwise fall into the category of persons described in paragraph one on page 131.

Secondly, you may, without becoming a bankrupt, file a proposal with a licensed trustee in which you offer to settle with your creditors upon certain terms. A copy of your proposal is filed by the trustees with the Official Receiver and a meeting of your creditors is called to consider your proposal. A proposal accepted by the creditors and approved by the court is binding on all the creditors with claims provable under the Bankruptcy Act and affected by the terms of the proposal.

A proposal is only suitable to a business that, given time or other consideration, has prospects of being a success. The first essential is that the creditors have confidence in your ability.

Before you have started either of the above actions, your creditors may have formed their own opinion about your business, and for their own protection a creditor or group of creditors whose claim or claims against you amount to $1,000 or more, may petition the court for a receiving order, provided that you have resided in or carried on business in Canada and have committed an act of bankruptcy within six months next preceding the filing of the petition. The latter are acts indicating a debtor's inability to pay his debts as they become due, or acts indicating the intention on the part of the debtor to defeat, defraud, or delay his creditors as by absconding, by removing or secreting his assets, or by disposing of them in a fraudulent manner. After the petition for a receiving order has been filed in the court, a date is set for the hearing of the petition. At this hearing, you have an opportunity to dispute the statements made in the petition. In certain cases, if it is shown to be necessary for the protection of the estate, the court may appoint an interim receiver pending the hearing of the petition. The court may either dismiss the petition or it may make a receiving order against you, thus making you a bankrupt. In the latter case, a trustee is appointed at once to take possession of all your property.

A debtor's property under the Act comprises all property of the bankrupt at the time of his bankruptcy, and all that he may acquire or that may devolve on him before his discharge. It does not include property exempt from seizure under the laws of the province within which the debtor resides, or within which the property is situated; nor does it include property held by the bankrupt in trust for any other person.

The trustee appointed under these proceedings takes possession of all your property and makes an inventory of it. He then calls a meeting of your creditors to confirm the appointment of the trustee or to elect another, to consider your affairs, to give such directions to him as they may think necessary, and to appoint inspectors. The duties of the inspectors are: to give directions to the trustee; to satisfy themselves that

all your property has been duly accounted for; and to determine whether or not the expenses incurred are proper and the fees just and reasonable in the circumstances.

When all the assets of your estate have been realized, or when the moneys under a proposal have been paid, the trustee prepares a dividend sheet showing how he proposes to distribute the proceeds, and a statement showing his receipts and disbursements. These documents are submitted to the inspectors for approval, to the Superintendent of Bankruptcy for his comments, and finally to the court for the "passing" of the accounts. They are then issued to the creditors together with the trustee's notice of his intention to declare a dividend and later apply for his discharge as trustee. In due course, the trustee applies for his discharge.

The making of a receiving order against or the making of an assignment by any person, other than a corporation, operates as an application for the debtor's discharge from his liabilities, unless he waives this right. In this connection, the trustee arranges a date with the court for the hearing of the application; notifies all the creditors in case any of them want to object to your being discharged; and makes a report to the court on your conduct, the causes of the bankruptcy, and the disposition of your assets. After considering all the evidence, the court may grant an unconditional discharge, or it may refuse the discharge or suspend it for a period of time, or make it subject to some condition.

As a bankrupt, your duties will include submitting yourself for examination, attending your creditors at the first meeting, fully disclosing all your assets, and assisting the trustee in every possible way in the administration of your estate. Among the offences for which you are punishable under the Act are: failing to comply with a bankrupt's duties under the Act; fraudulently disposing of property; concealing, destroying or falsifying books or documents relating to your business; refusing to answer fully and truthfully any question put to you at any examination; and obtaining credit or property by false representation after or within twelve months preceding your bankruptcy.

Appendix A

PROVINCIAL INDUSTRIAL DEVELOPMENT OFFICIALS*

Deputy Minister,
Department of Trade and Industry,
Province of British Columbia,
Victoria, British Columbia.

Deputy Minister,
Department of Industries and Labour,
Province of Alberta,
Edmonton, Alberta.

Director,
Industrial Development Office,
Province of Saskatchewan,
Regina, Saskatchewan.

Deputy Minister,
Department of Industry and Commerce,
Province of Manitoba,
Winnipeg, Manitoba.

Director,
Trade and Industry Branch,
Department of Planning and Development,
Province of Ontario,
Toronto, Ontario.

Deputy Minister,
Department of Trade and Commerce,
Province of Quebec,
Quebec City, Quebec.

* This is the current membership of the Provincial Governments' Trade and Industry Council.

Deputy Minister,
Department of Industry and Development,
Province of New Brunswick,
Fredericton, New Brunswick.

Deputy Minister,
Department of Trade and Industry,
Province of Nova Scotia,
Halifax, Nova Scotia.

Director of Trade,
Department of Industry and Natural Resources,
Province of Prince Edward Island,
Charlottetown, Prince Edward Island.

Deputy Minister,
Department of Economic Affairs,
Province of Newfoundland,
St. John's, Newfoundland.

Appendix B

MOTOR CARRIER ORGANIZATIONS

The provincial motor carrier organizations with their headquarters are as follows:

Trucking Association of Quebec, Inc.,
1670 Parthenais Street,
Montreal, Quebec.

Automotive Transport Association of Ontario, Inc.
146 Wellington Street West,
Toronto 1, Ontario.

Maritime Motor Transport Association,
P.O. Box 100,
Sackville, New Brunswick.

Manitoba Trucking Association,
4-445 Main Street,
Winnipeg, Manitoba.

Saskatchewan Motor Transport Association,
6 Victoria Park Building,
Regina, Saskatchewan.

Alberta Motor Transport Association,
218-17th Ave., East,
Calgary, Alberta.

Automotive Transport Association of British Columbia,
207 West Hastings St.,
Vancouver, British Columbia.

These operator organizations are also brought together in a national federation known as the Canadian Trucking Associations, 270 MacLaren St., Ottawa 4, Ontario.

Appendix C

NATIONAL RESEARCH COUNCIL

TECHNICAL INFORMATION SERVICE REPRESENTATIVES

British Columbia	British Columbia Research Council, University of British Columbia, Vancouver, British Columbia.
Alberta	Research Council of Alberta, University of Alberta, Edmonton, Alberta.
Saskatchewan	Research Council of Saskatchewan, University of Saskatchewan, Saskatoon, Saskatchewan.
Manitoba	310 Electric Railway Chambers, Winnipeg, Manitoba.
Ontario	Ontario Research Foundation, Toronto 1, Ontario.
Quebec	324 DeMontigny Street E., Montreal, Quebec.
	Dr. G. Letendre, P.O. Box 39 H.V., Quebec City, Quebec.
New Brunswick	New Brunswick Department of Industry & Development, Fredericton, New Brunswick.
Nova Scotia, P.E.I. and Newfoundland	Nova Scotia Research Foundation, Halifax, Nova Scotia.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956